

City of Lancaster, Pennsylvania

Financial Statements and Required
Supplementary Information

Year Ended December 31, 2014 with
Independent Auditor's Report

CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2014

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CITY OF LANCASTER, PENNSYLVANIA

YEAR ENDED DECEMBER 31, 2014

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Independent Auditor's Report

To the Honorable J. Richard Gray, Mayor
and Members of City Council
City of Lancaster, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Pennsylvania (City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lancaster Industrial Development Authority, the Lancaster Recreation Commission, the Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority, which represent 67 percent, 129 percent, and 60 percent, respectively, of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. The financial statements of the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1, management has elected to change its policy for determining depreciation expense for the Water Fund during the year ended December 31, 2014. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the historical pension and other post-employment benefit (OPEB) information, and budgetary comparison information on pages i through ix and 109 through 119 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
June 30, 2015



MANAGEMENT'S
DISCUSSION AND
ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lancaster, Pennsylvania ("the City") provides this narrative overview and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2014 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. While the Lancaster Industrial Development Authority, Lancaster Recreation Commission, the Parking Authority of the City of Lancaster, the Redevelopment Authority of the City of Lancaster, and the Lancaster Downtown Investment District Authority are all separate legal entities, they are shown in the financial statements as discretely presented component units. This overview, however, focuses on the primary government and, unless otherwise noted, these component units are not included in this discussion. The City encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2014, the assets and deferred outflows of resources of the City exceeded its liabilities by \$88.202 million. The City's net position decreased \$12.150 million (12.107 percent) during the fiscal year. The governmental activities net position decreased by \$9.285 million (62.766 percent) and the business-type activities net position decreased by \$2.865 million (3.349 percent).
- At the close of 2014, the City's governmental funds reported a combined ending fund balance of \$16.815 million, an increase of \$1.039 million (6.583 percent). Of this amount, approximately \$6.240 million is legally restricted and/or unavailable to spend, and \$8.405 million is committed and/or assigned for designated projects, leaving \$2.170 million available for spending at the government's discretion (unassigned fund balance).
- The City's total outstanding bonded debt increased by \$37.601 million (17.705 percent) during the current fiscal year to \$249.977 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **Statement of Net Position** presents information on all of the City's assets, deferred outflows of resources, and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the City's financial health.

The **Statement of Activities** presents information showing how the City's net position changed during the current reporting period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, economic development and neighborhood revitalization, and public works. The business-type activities of the City include a water utility, a sewer utility, solid waste and recycling, and stormwater management.

Fund Financial Statements Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on major funds, rather than fund types. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the City's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds account for services for which the City charges user fees to outside customers and internal City departments. Proprietary funds utilize full accrual accounting; the same method used by private sector businesses. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utility operations, stormwater management and solid waste and recycling program. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water utility and sewer utility, and combine stormwater management and the solid waste and recycling program. The water and sewer utilities are considered to be major funds of the City. The Internal Service Fund accounts for financing of insurance services provided to other funds of the City.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. These funds are reported using full accrual accounting. The City's fiduciary funds include the Non-Uniformed Employees' Retirement Fund, the Fire Pension Fund, the Police Pension Fund, OPEB trusts, and various private-purpose trust and agency funds. The government-wide financial statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent spendable assets of the City to finance its operations.

Notes to the Financial Statements The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Required Supplementary Information Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. This data includes pension plan and OPEB funding and budgetary comparisons for the general fund and budgeted major special revenue funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities at the close of December 31, 2014 by approximately \$88.202 million.

Statement of Net Position

Table A-1 Condensed Statement of Net Position (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$44,915	\$44,922	\$65,262	\$40,888	\$110,177	\$85,810
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	69,982	69,831	233,925	228,759	303,907	298,590
Total Assets	114,897	114,753	299,187	269,647	414,084	384,400
Deferred Charge on Refunding	707	782	2,553	2,887	3,260	3,669
Current and Other Liabilities	7,445	9,275	17,829	18,870	25,274	28,145
Long-Term Liabilities	102,651	91,467	201,217	168,105	303,868	259,572
Total Liabilities	110,096	100,742	219,046	186,975	329,142	287,717
Net Position						
Net Investment in Capital Assets	39,661	44,232	92,521	92,793	132,182	137,025
Restricted	2,219	2,197	4,016	5,219	6,235	7,416
Unrestricted	(36,372)	(31,636)	(13,843)	(12,453)	(50,215)	(44,089)
Total Net Position	\$5,508	\$14,793	\$82,694	\$85,559	\$88,202	\$100,352

Table A-1 is a condensed version of the statement of net position for the City.

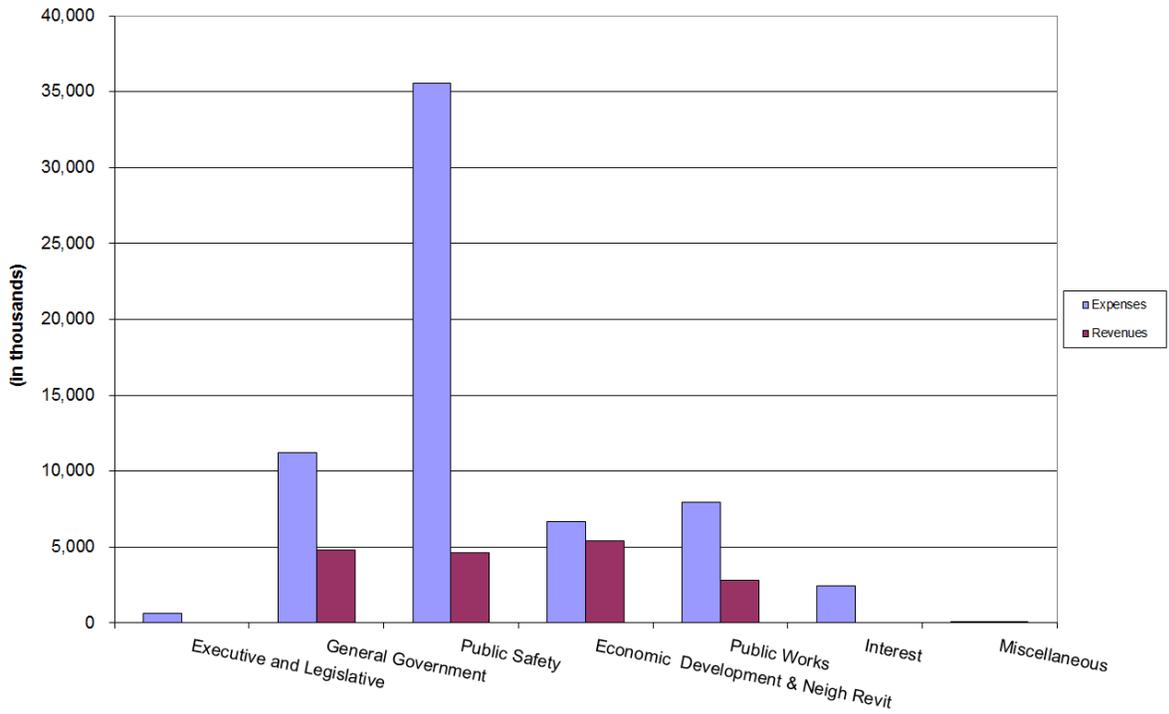
**Table A-2 Changes in Net Position Resulting from Changes in Revenues and Expenses
(In Thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for Services	\$8,787	\$9,218	\$39,167	\$36,948	\$47,954	\$46,166
Operating & Capital Grants and Contributions	8,917	15,386	1,958	6,472	10,875	21,858
General Revenues						
Property Taxes	24,925	24,846	-	-	24,925	24,846
Earned Income Tax	5,192	5,068	-	-	5,192	5,068
LST, Occupation and Per Capita Taxes	1,700	1,613	-	-	1,700	1,613
Other Taxes	539	532	-	-	539	532
Miscellaneous	2,619	2,438	43	64	2,662	2,502
Total Revenues	52,679	59,101	41,168	43,484	93,847	102,585
Expenses						
Governmental Activities:						
Executive and Legislative	641	765	-	-	641	765
General Government	11,204	6,371	-	-	11,204	6,371
Public Safety	35,577	35,435	-	-	35,577	35,435
Economic Development & Neigh Revit	6,657	7,974	-	-	6,657	7,974
Public Works	7,931	9,875	-	-	7,931	9,875
Interest	2,453	2,257	-	-	2,453	2,257
Miscellaneous	96	116	-	-	96	116
Business-Type Activities						
Sewer	-	-	15,457	15,040	15,457	15,040
Water	-	-	22,759	21,652	22,759	21,652
Solid Waste, Recycling, and Stormwater	-	-	5,656	3,809	5,656	3,809
Total Expenses	64,559	62,793	43,872	40,501	108,431	103,294
Excess (Deficiency) Before Transfers and Extraordinary item - legal settlement	(11,880)	(3,692)	(2,704)	2,983	(14,584)	(709)
Transfers	2,595	836	(2,595)	(836)	-	-
Increase (Decrease) in Net Position	(9,285)	(2,856)	(2,865)	2,147	(12,150)	(709)
Net Position - Beginning of Year	14,793	17,649	85,559	83,412	100,352	101,061
Net Position - End of Year	\$5,508	\$14,793	\$82,694	\$85,559	\$88,202	\$100,352

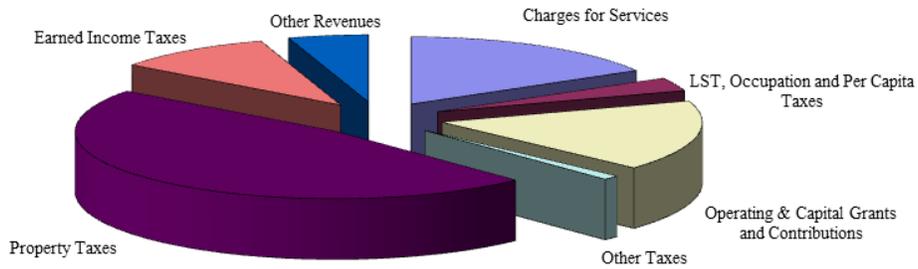
The City's total net position decreased by \$12.150 million in 2014.

Governmental Activities

Expenses and Program Revenues - Governmental Activities-2014



Revenues by Source - Governmental Activities-2014

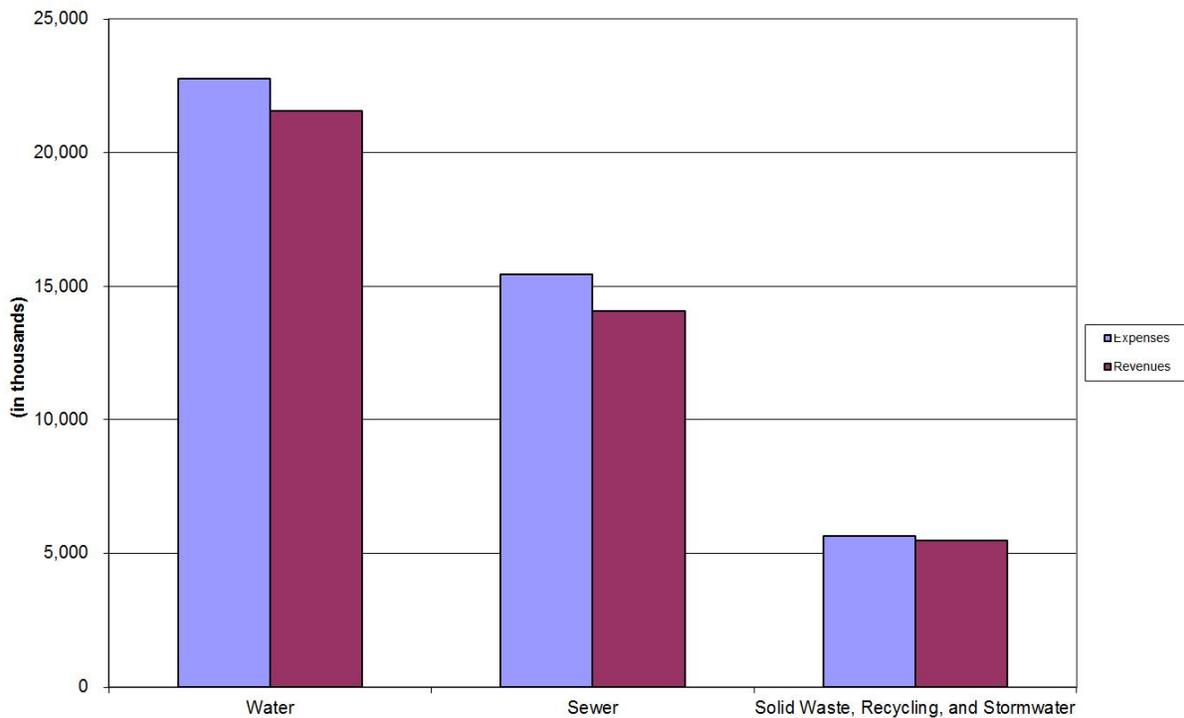


Governmental activities. Governmental activities decreased the City's net position by \$9.285 million. In 2014, total revenues for governmental activities were \$52.679 million, \$6.422 million or 10.866 percent lower than 2013. Total expenses for governmental activities, which were \$64.559 million, were \$1.766 million or 2.812 percent higher than 2013. The decrease in net position is mainly a result of a decrease in capital grant revenues of \$4.92 million or 78.285 percent due to a decrease in contributions and grants for several sewer projects that were finalized in 2013 and an increase in general government expenses of \$4.832 million or 75.845 percent mainly attributable to the loss on disposal of capital assets for the sale of the Lancaster Press building during 2014.

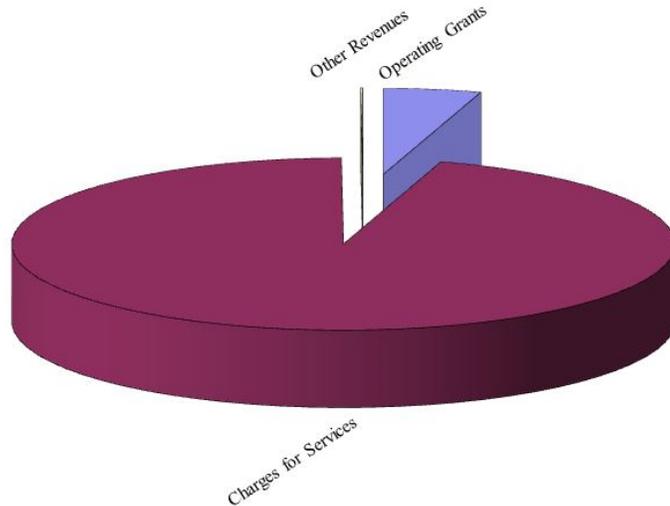
The charts on the previous page present the City's governmental expenses by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by general government, public works and economic development and neighborhood revitalization. General revenues such as property, earned income, emergency and municipal services, and per capita taxes are not shown by function because they are used to support City-wide program activities.

Business-Type Activities

Expenses and Program Revenues - Business-Type Activities-2014



Revenues by Source - Business-Type Activities-2014



Business-Type activities. Business-type activities decreased the City's net position by \$2.865 million to \$82.694 million, a decrease of 3.349 percent. Charges for services in the business-type activities increased \$2.219 million from the prior year primarily due to the new user fees charged for stormwater management in 2014. Operating and Capital Grants and Contribution revenue decreased by \$4.514 million, a decrease of 69.747 percent, primarily due to decreased capital grants and construction project activity from 2013. Expenses for water, sewer, solid waste and recycling, and stormwater management operations increased \$3.371 million from 2013 due primarily to wastewater and green initiatives and debt service expense costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance measures the City's net resources available for spending at the end of the fiscal year. Governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, and capital project funds.

At the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$16.815 million. Approximately \$2.170 million of that amount constitutes unassigned fund balance, which is available for discretionary spending. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (\$.011), 2) restricted for particular purposes (\$6.229), 3) committed for particular purposes (\$.663), or 4) assigned for particular purposes (\$7.742).

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net position of the Water, Sewer, Stormwater and Solid Waste and Recycling Funds at the end of the year amounted to \$83.052 million. Net position of the Stormwater and Solid Waste and Recycling Funds decreased \$1.165 million. Net position of the Water and Sewer Funds decreased \$3.583 million and increased \$2.208 million, respectively.

Fiduciary Funds. The City maintains fiduciary funds for the assets of City of Lancaster Cash Balance Pension Plan, Defined Contribution Plan, the Police Pension Plan, the Fire Pension Plan, OPEB trusts, and various agency and private-purpose trust funds. The total net position of the combined fiduciary funds is \$122.532 million. The City's employee pension plans and OPEB trusts represent 99.778 percent of that amount. During 2014, the net position of the Pension Trust Funds increased by \$8.228 million to \$119.886 million. The change is related to the appreciation of the retirement plans' investments compared to 2013. Additionally, the OPEB Trust Funds increased by \$.913 to \$2.374 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund budget contained \$50.401 million in appropriations, and \$48.711 in estimated revenues, with \$1.690 of required resources coming from the unassigned fund balance. Overall, revenues were lower than anticipated by \$0.200 million. Key factors for the decrease are as follows:

- Sales of general capital assets were \$.192 higher than the budgeted amount.
- Earned income taxes collected by the Lancaster County Tax Collection Bureau were higher than the budgeted amount by \$0.292.
- Licenses and Permits issued and fines and forfeitures were \$.304 and \$.412 under budget due to economic conditions.

Expenditures in comparison to budget were reduced in virtually all operating departments by administrative actions, including the shifting of several capital projects to the Capital Improvement Plan budget and delaying hiring for vacancies.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2014 amounts to \$303.907 million (net of accumulated depreciation). This investment includes land, buildings, improvements, infrastructure, vehicles, machinery and equipment. More detail about the City's capital assets is presented in Note 6 to the financial statements.

During 2014, the City sold the Lancaster Press Building for \$200,000. This building had a net book value of \$3.556 million.

Debt administration. At the end of 2014, the City had \$249.977 million outstanding debt, compared to \$212.376 million in 2013. More detailed information about the City's long-term debt is presented in Note 10 to the financial statements.

During 2014, the City issued general obligation bonds, Series of 2014, in the aggregate amount of \$42,490,000. The bond proceeds were used for the purposes of financing improvements and upgrades to water treatment facilities, improving and upgrading wastewater treatment and collection facilities, and other miscellaneous capital projects. The debt service on these bonds is paid by the General Fund, Sewer Fund, Water Fund, and Stormwater Fund, an other enterprise fund.

In January 2014, the City issued \$5,500,000 Guaranteed Revenue Note of 2014. This is a Pennvest loan for the construction of a preliminary treatment facility and diversion chamber. As of December 31, 2014, \$333,129 was drawn down on this note. The debt service on this note will be paid by the Sewer Fund.

During 2004, the City entered into derivative agreements in connection with the 1998 General Obligation Bonds, Series A. More detailed information about the City's derivative agreements is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The City continues to face fiscal challenges common to many urban communities across Pennsylvania and the nation; a stagnant tax base due to the lack of open and developable land, inflationary pressures on labor costs and benefits and a high number of tax-exempt properties (28% of all assessed property value in the City) which reduces the revenue available to support City services. Despite these pressures, the City was able to weather the economic storm in recent years better than many areas of the state and country by starting fiscal restraint efforts in 2006 prior to the beginning of the economic downturn. The City's bond rating (Moody's A1) is the highest among all Pennsylvania cities. Indicators of local economic health such as Real Estate Transfer taxes have remained level, but Earned Income tax revenues paid by City residents have begun to rebound after several years of declining revenues. Despite the national economy's impact on City revenues, a renewed focus on city living and strong private investment has allowed the City to maintain a vibrant downtown residential, retail and arts environment.

A new economic development plan recently released by the Lancaster City Alliance noted the City's strong development and business activity since 2007. During the eight year period from 2007 through 2014, the City has seen \$1.5 billion in economic investment, a net increase of 100 new businesses and expansion of an additional 60 businesses. The City also continued to experience high levels of construction and renovation activity in 2014 with 2,032 building permits issued for projects worth a total of nearly \$120,000,000. Lancaster also saw a population increase in the past decade with the 2010 U.S. Census showing a population increase of 5.3% since 2000. While challenges for cities will always be present, the City continues to thrive as the economic, arts and entertainment hub of Lancaster County and the surrounding region.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. The audited financial statements of the component units may be reviewed at City Hall. If you have any questions about this report or need additional financial information, contact the Business Administrator, 120 North Duke Street, PO Box 1599, Lancaster, PA 17608-1599 (Telephone 717-291-3556).



BASIC
FINANCIAL
STATEMENTS

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION

DECEMBER 31, 2014

	Primary Government			Component	
	Governmental Activities	Business-type Activities	Total	Units	Total
Assets and Deferred Outflows of Resources					
Assets:					
Cash and cash equivalents	\$ 475,082	\$ 200,850	\$ 675,932	\$ 2,398,031	\$ 3,073,963
Cash and cash equivalents - restricted	4,628,962	66,121,814	70,750,776	1,827,238	72,578,014
Investments	388,384	-	388,384	357,275	745,659
Investments - restricted	194	265,366	265,560	3,463,726	3,729,286
Receivables (net of allowance for uncollectibles):					
Taxes	2,540,715	-	2,540,715	-	2,540,715
Accounts	493,882	10,687,158	11,181,040	789,604	11,970,644
Notes	7,151,839	-	7,151,839	2,473,770	9,625,609
Investment income	121,986	-	121,986	-	121,986
Other	-	143,065	143,065	67,164	210,229
Internal balances	13,762,979	(13,762,979)	-	-	-
Accrued interest	-	-	-	595,228	595,228
Prepaid expenses	10,999	6,865	17,864	66,569	84,433
Lease rental receivable	-	-	-	23,255,454	23,255,454
Due from other governments	1,885,571	140,638	2,026,209	8,455,622	10,481,831
Prepaid debt insurance	507,913	1,459,152	1,967,065	-	1,967,065
Properties held for resale	-	-	-	724,788	724,788
Net pension asset	12,277,572	-	12,277,572	-	12,277,572
Embedded derivative instrument	668,903	-	668,903	-	668,903
Capital assets, not being depreciated	8,409,490	6,857,049	15,266,539	4,792,933	20,059,472
Capital assets, being depreciated, net	61,572,715	227,068,000	288,640,715	23,871,656	312,512,371
Total Assets	114,897,186	299,186,978	414,084,164	73,139,058	487,223,222
Deferred Outflows of Resources:					
Deferred charge on refunding	706,932	2,552,568	3,259,500	19,554	3,279,054
Total Deferred Outflows of Resources	706,932	2,552,568	3,259,500	19,554	3,279,054
Total Assets and Deferred Outflows of Resources	\$ 115,604,118	\$ 301,739,546	\$ 417,343,664	\$ 73,158,612	\$ 490,502,276

(Continued)

	Primary Government			Component	
	Governmental Activities	Business-type Activities	Total	Units	Total
Liabilities and Net Position					
Liabilities:					
Accounts payable	\$ 2,761,848	\$ 4,188,081	\$ 6,949,929	\$ 323,274	\$ 7,273,203
Due to other governments	483	-	483	-	483
Accrued salaries and benefits	790,419	248,412	1,038,831	33,136	1,071,967
Accrued expenses	357,327	1,399,581	1,756,908	371,495	2,128,403
Line of credit	-	-	-	503,952	503,952
Due to primary government	-	-	-	288,591	288,591
Unearned revenue	213,262	256,558	469,820	9,622,065	10,091,885
Contingent liability from property resettlements	-	-	-	309,000	309,000
Other liabilities	30,211	-	30,211	-	30,211
Long-term liabilities:					
Portion due or payable within one year:					
Due to other governments	-	7,346,801	7,346,801	-	7,346,801
Compensated absences payable	265,094	43,722	308,816	-	308,816
Workers' compensation liability	349,482	606	350,088	-	350,088
Due to lessee	-	-	-	404,132	404,132
Capital leases	196,103	483,743	679,846	-	679,846
Borrowing payable - basis swap	138,245	-	138,245	-	138,245
Loans payable	-	-	-	150,000	150,000
Notes payable	865,000	1,944,508	2,809,508	108,000	2,917,508
Bonds payable	1,478,000	1,917,000	3,395,000	2,351,494	5,746,494
Portion due or payable after one year:					
Compensated absences payable	887,236	142,836	1,030,072	-	1,030,072
Workers' compensation liability	706,354	1,225	707,579	-	707,579
Net other post-employment liability	46,480,490	6,944,171	53,424,661	-	53,424,661
Due to lessee	-	-	-	1,000,293	1,000,293
Capital leases	154,150	708,578	862,728	-	862,728
Borrowing payable - basis swap	1,111,571	-	1,111,571	-	1,111,571
Loans payable	-	-	-	450,000	450,000
Notes payable	9,205,000	20,772,360	29,977,360	4,186,392	34,163,752
Bonds payable	44,105,923	172,647,536	216,753,459	46,412,865	263,166,324
Total Liabilities	110,096,198	219,045,718	329,141,916	66,514,689	395,656,605
Net Position:					
Net investment in capital assets	39,661,471	92,521,026	132,182,497	2,185,133	134,367,630
Restricted for:					
Capital acquisition	-	4,016,346	4,016,346	-	4,016,346
Housing and neighborhood development	271,190	-	271,190	-	271,190
Economic and community development	1,510,578	-	1,510,578	-	1,510,578
Public works	210,689	-	210,689	-	210,689
Parks and recreation	225,980	-	225,980	-	225,980
Debt service	746	-	746	841,356	842,102
Unrestricted	(36,372,734)	(13,843,544)	(50,216,278)	3,617,434	(46,598,844)
Total Net Position	5,507,920	82,693,828	88,201,748	6,643,923	94,845,671
Total Liabilities and Net Position	\$ 115,604,118	\$ 301,739,546	\$ 417,343,664	\$ 73,158,612	\$ 490,502,276

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

<u>Functions/Programs:</u>	Program Revenues			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Executive department	\$ 485,272	\$ -	\$ -	\$ -
Legislative department	138,741	-	-	-
Office of the City Treasurer/Controller	17,000	-	-	-
General government	11,203,719	3,049,270	1,744,222	-
Public safety	35,577,144	3,563,456	1,063,080	14,285
Economic development and neighborhood revitalization	6,657,376	2,082,435	3,333,711	-
Public works	7,931,367	86,020	1,364,249	1,366,072
Miscellaneous	96,149	5,409	31,799	-
Interest	2,453,336	-	-	-
Total governmental activities	64,560,104	8,786,590	7,537,061	1,380,357
Business-type activities:				
Sewer	15,456,875	12,986,957	113,371	1,002,290
Water	22,758,602	20,981,680	182,707	393,874
Other enterprise funds	5,656,477	5,198,450	265,126	-
Total business-type activities	43,871,954	39,167,087	561,204	1,396,164
Total Primary Government	\$ 108,432,058	\$ 47,953,677	\$ 8,098,265	\$ 2,776,521
Component Units:				
Lancaster Industrial Development Authority	\$ 21,781	\$ 31,890	\$ -	\$ -
Lancaster Recreation Commission	3,041,667	2,838,535	473,962	-
The Parking Authority of the City of Lancaster	4,456,067	5,110,896	-	-
Redevelopment Authority of the City of Lancaster	3,405,403	867,858	1,550,068	200,393
Lancaster Downtown Investment District Authority	397,952	361,381	70,203	-
Total Component Units	\$ 11,322,870	\$ 9,210,560	\$ 2,094,233	\$ 200,393
General revenues:				
Taxes:				
Property taxes for general purposes				
Real estate transfer tax				
Earned income tax				
Local services tax				
Delinquent occupation and per capita taxes				
Grants not restricted to specific programs				
Investment earnings				
Extraordinary item - litigation settlement				
Transfers				
Total general revenues, transfers, and extraordinary item				
Change in Net Position				
Net Position:				
Beginning of year				
End of year				

Net (Expenses) Revenue and
Changes in Net Position

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	Total
\$ (485,272)	\$ -	\$ (485,272)	\$ -	\$ (485,272)
(138,741)	-	(138,741)	-	(138,741)
(17,000)	-	(17,000)	-	(17,000)
(6,410,227)	-	(6,410,227)	-	(6,410,227)
(30,936,323)	-	(30,936,323)	-	(30,936,323)
(1,241,230)	-	(1,241,230)	-	(1,241,230)
(5,115,026)	-	(5,115,026)	-	(5,115,026)
(58,941)	-	(58,941)	-	(58,941)
(2,453,336)	-	(2,453,336)	-	(2,453,336)
<u>(46,856,096)</u>	<u>-</u>	<u>(46,856,096)</u>	<u>-</u>	<u>(46,856,096)</u>
-	(1,354,257)	(1,354,257)	-	(1,354,257)
-	(1,200,341)	(1,200,341)	-	(1,200,341)
-	(192,901)	(192,901)	-	(192,901)
-	(2,747,499)	(2,747,499)	-	(2,747,499)
<u>(46,856,096)</u>	<u>(2,747,499)</u>	<u>(49,603,595)</u>	<u>-</u>	<u>(49,603,595)</u>
-	-	-	10,109	10,109
-	-	-	270,830	270,830
-	-	-	654,829	654,829
-	-	-	(787,084)	(787,084)
-	-	-	33,632	33,632
-	-	-	<u>182,316</u>	<u>182,316</u>
24,924,985	-	24,924,985	-	24,924,985
539,545	-	539,545	-	539,545
5,192,274	-	5,192,274	-	5,192,274
1,700,385	-	1,700,385	-	1,700,385
15	-	15	-	15
2,420,483	-	2,420,483	-	2,420,483
198,426	43,237	241,663	2,166,388	2,408,051
-	2,433,543	2,433,543	-	2,433,543
2,594,514	(2,594,514)	-	-	-
<u>37,570,627</u>	<u>(117,734)</u>	<u>37,452,893</u>	<u>2,166,388</u>	<u>39,619,281</u>
(9,285,469)	(2,865,233)	(12,150,702)	2,348,704	(9,801,998)
<u>14,793,389</u>	<u>85,559,061</u>	<u>100,352,450</u>	<u>4,295,219</u>	<u>104,647,669</u>
<u>\$ 5,507,920</u>	<u>\$ 82,693,828</u>	<u>\$ 88,201,748</u>	<u>\$ 6,643,923</u>	<u>\$ 94,845,671</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2014

	General Fund	Capital Projects	Debt Service Fund	Miscellaneous State Grants Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 4,500	\$ 179,042	\$ -	\$ -	\$ 291,540	\$ 475,082
Cash and cash equivalents - restricted	100,000	4,528,962	-	-	-	4,628,962
Investments	-	-	5,746	-	382,638	388,384
Investments - restricted	194	-	-	-	-	194
Receivables (net of allowance for uncollectibles):						
Taxes	2,540,715	-	-	-	-	2,540,715
Accounts	467,774	5,060	-	-	21,048	493,882
Investment income	-	-	-	-	121,986	121,986
Due from other funds	8,843,252	-	-	-	2,055,632	10,898,884
Due from other governments	511,132	-	-	989,836	384,603	1,885,571
Prepaid expenditures	10,630	-	-	-	369	10,999
Total Assets	\$ 12,478,197	\$ 4,713,064	\$ 5,746	\$ 989,836	\$ 3,257,816	\$ 21,444,659
Liabilities, Deferred Inflows of Resources, and Fund Balance						
Liabilities:						
Accounts payable	\$ 540,983	\$ 703,251	\$ 5,000	\$ 411,433	\$ 273,384	\$ 1,934,051
Due to other funds	-	-	-	466,973	-	466,973
Due to other governments	-	-	-	-	483	483
Accrued salaries and benefits	787,360	-	-	-	3,059	790,419
Unearned revenue	3,118	-	-	111,430	98,714	213,262
Other liabilities	29,629	-	-	-	582	30,211
Workers' compensation liability	349,482	-	-	-	-	349,482
Total Liabilities	1,710,572	703,251	5,000	989,836	376,222	3,784,881
Deferred Inflows of Resources:						
Unavailable revenue - taxes	844,923	-	-	-	-	844,923
Fund Balance:						
Nonspendable:						
Prepaid expenditures	10,630	-	-	-	-	10,630
Restricted for:						
Capital acquisition	-	4,009,813	-	-	-	4,009,813
Housing and neighborhood development	-	-	-	-	271,190	271,190
Economic and community development	-	-	-	-	1,510,578	1,510,578
Public works	-	-	-	-	210,689	210,689
Parks and recreation	-	-	-	-	225,980	225,980
Debt service	-	-	746	-	-	746
Committed for:						
Economic and community development	-	-	-	-	663,157	663,157
Assigned for:						
2015 budget	1,541,912	-	-	-	-	1,541,912
Debt service	4,750,000	-	-	-	-	4,750,000
Excess medical expenditures	700,000	-	-	-	-	700,000
Excess workers' compensation expenditures	750,000	-	-	-	-	750,000
Unassigned	2,170,160	-	-	-	-	2,170,160
Total Fund Balance	9,922,702	4,009,813	746	-	2,881,594	16,814,855
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 12,478,197	\$ 4,713,064	\$ 5,746	\$ 989,836	\$ 3,257,816	\$ 21,444,659

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014

Total Fund Balance - Governmental Funds		\$ 16,814,855
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		69,982,205
The net pension asset resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds.		12,277,572
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds.		844,923
Notes receivable are long-term in nature and are not available to pay current period expenditures and, therefore, are not reported in the funds.		7,151,839
Prepaid debt insurance resulting from insurance paid with the issuance of debt is not a financial resource and, therefore, is not reported in the funds.		507,913
Deferred charges on refunding resulting from the issuance of debt are not financial resources and, therefore, are not reported in the funds.		706,932
Embedded derivative instrument is not a financial resource and, therefore, is not reported in the funds.		668,903
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.		
General obligation bonds	\$ (45,583,923)	
General obligation notes	(10,070,000)	
Accrued interest on general obligation bonds and notes	(357,327)	
Capital leases	(350,253)	
Borrowing payable - basis swap	(1,249,816)	
Compensated absences payable	(1,152,330)	
Workers' compensation liability	(706,354)	
Net other post-employment liability	<u>(46,480,490)</u>	(105,950,493)
Internal service funds are used by management to charge the costs of insurance services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal service fund net position	2,144,977	
Adjustment related to proprietary funds	<u>358,294</u>	<u>2,503,271</u>
Total Net Position - Governmental Activities		<u><u>\$ 5,507,920</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2014

	General Fund	Capital Projects	Debt Service Fund	Miscellaneous State Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 32,382,423	\$ -	\$ -	\$ -	\$ -	\$ 32,382,423
Intergovernmental revenues	2,548,979	-	-	2,743,250	4,041,542	9,333,771
Licenses and permits	1,960,531	-	-	-	-	1,960,531
Fines and forfeitures	2,067,968	-	-	-	-	2,067,968
Rents and charges for services	1,343,504	-	-	-	51,188	1,394,692
Program income	-	-	-	-	305,071	305,071
Investment income	14	1,387	16	-	257	1,674
Miscellaneous	2,245,880	6,800	-	-	32,533	2,285,213
Total revenues	<u>42,549,299</u>	<u>8,187</u>	<u>16</u>	<u>2,743,250</u>	<u>4,430,591</u>	<u>49,731,343</u>
Expenditures:						
Executive department	483,272	-	-	2,000	-	485,272
Legislative department	138,741	-	-	-	-	138,741
Office of the City Treasurer/Controller	17,000	-	-	-	-	17,000
General government	5,441,879	-	-	1,160,290	-	6,602,169
Public safety	31,573,223	-	-	353,706	554,324	32,481,253
Economic development and neighborhood revitalization	2,186,166	1,159,370	-	966,486	2,422,197	6,734,219
Public works	5,066,534	-	-	286,453	1,179,220	6,532,207
Miscellaneous	-	-	-	-	109,132	109,132
Capital outlay	-	4,492,751	-	-	-	4,492,751
Debt service:						
Principal	118,640	-	2,098,400	11,097	75,623	2,303,760
Interest	11,549	-	2,514,764	-	7,934	2,534,247
Total expenditures	<u>45,037,004</u>	<u>5,652,121</u>	<u>4,613,164</u>	<u>2,780,032</u>	<u>4,348,430</u>	<u>62,430,751</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,487,705)</u>	<u>(5,643,934)</u>	<u>(4,613,148)</u>	<u>(36,782)</u>	<u>82,161</u>	<u>(12,699,408)</u>
Other Financing Sources (Uses):						
Interfund reimbursements	2,993,884	-	-	-	-	2,993,884
Long-term debt issued	-	-	7,370,000	-	-	7,370,000
Capital leases	96,472	-	-	52,295	-	148,767
Sale of general capital assets	217,356	-	-	-	-	217,356
Transfers in	2,750,000	7,465,646	4,435,266	-	-	14,650,912
Transfers out	(4,283,379)	(92,454)	(7,465,646)	(15,513)	(59,432)	(11,916,424)
Original issue discount	-	-	273,528	-	-	273,528
Total other financing sources (uses)	<u>1,774,333</u>	<u>7,373,192</u>	<u>4,613,148</u>	<u>36,782</u>	<u>(59,432)</u>	<u>13,738,023</u>
Net Change in Fund Balance	<u>(713,372)</u>	<u>1,729,258</u>	<u>-</u>	<u>-</u>	<u>22,729</u>	<u>1,038,615</u>
Fund Balance:						
Beginning of year	10,636,074	2,280,555	746	-	2,858,865	15,776,240
End of year	<u>\$ 9,922,702</u>	<u>\$ 4,009,813</u>	<u>\$ 746</u>	<u>\$ -</u>	<u>\$ 2,881,594</u>	<u>\$ 16,814,855</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

Net Change in Fund Balance - Governmental Funds	\$	1,038,615
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	\$ (3,026,755)	
Capital outlay	<u>7,203,757</u>	4,177,002
When recognizing the sale of capital assets and other property held for sale, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported with the governmental activities.		
		(3,629,214)
Stormwater related capital assets and the applicable capital leases were transferred to business-type activities/enterprise funds. The governmental funds do not report capital assets or debt related to capital leases.		
Net book value of capital assets transferred to business-type activities/enterprise funds	(396,727)	
Capital lease liabilities transferred to business-type activities/enterprise funds	<u>256,753</u>	(139,974)
Bond, note, and capital lease proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.		
Payment of long-term liabilities	2,303,760	
Issuance of bonds	(7,370,000)	
Original issue discount	(273,528)	
Issuance of capital leases	<u>(148,767)</u>	(5,488,535)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Change in borrowing payable - basis swap	151,414	
Change in compensated absences payable	75,082	
Change in workers' compensation liability	353,607	
Change in other post-employment liability	(6,789,689)	
Change in accrued interest on debt	11,132	
Amortization of prepaid debt insurance	(51,590)	
Amortization of debt premium	44,997	
Amortization of deferred charge on refunding	(75,041)	
Change in value of embedded derivative instrument	196,752	
Change in net pension asset	<u>(250,975)</u>	(6,334,311)
The issuance of notes receivable are reported as expenditures in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing notes receivable increases assets and does not affect the statement of activities. Similarly, repayment of principal is program income in the governmental funds, but reduces the assets in the statement of net position.		
Notes receivable issued	788,887	
Principal payments received	(214,779)	
Change in allowance	<u>(413,334)</u>	160,774
Under the modified accrual basis of accounting used in the governmental funds, certain revenues are not recognized unless they are both available to pay current year expenditures and measurable. In the statement of activities, however, which is presented on the accrual basis, revenues and assets are reported regardless of when financial resources are available.		
Change in unavailable tax revenue		(26,355)
Internal service funds are used by management to charge the costs of insurance services to individual funds. The net revenue of certain activities of the internal service fund is reported within governmental activities.		
Internal service fund change in net position	631,070	
Adjustment related to proprietary funds	<u>325,459</u>	956,529
Change in Net Position - Governmental Activities		<u><u>\$ (9,285,469)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET PROPRIETARY FUNDS

DECEMBER 31, 2014

Assets and Deferred Outflows of Resources	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 200,300	\$ 550	\$ -	\$ 200,850	\$ -
Cash and cash equivalents - restricted	32,501,876	33,121,023	498,915	66,121,814	-
Investments	265,366	-	-	265,366	-
Receivables (net of allowance for uncollectibles):					
Accounts	5,746,673	3,302,447	1,638,038	10,687,158	-
Other	88,996	11,514	42,555	143,065	-
Due from other funds	-	-	-	-	2,972,774
Prepaid expenses	4,439	1,407	1,019	6,865	-
Total current assets	38,807,650	36,436,941	2,180,527	77,425,118	2,972,774
Long-term assets:					
Due from other governments	140,638	-	-	140,638	-
Prepaid debt insurance	552,888	906,264	-	1,459,152	-
Capital assets, not being depreciated	3,325,566	3,531,483	-	6,857,049	-
Capital assets, being depreciated, net	88,427,656	137,590,499	1,049,845	227,068,000	-
Total long-term assets	92,446,748	142,028,246	1,049,845	235,524,839	-
Total Assets	131,254,398	178,465,187	3,230,372	312,949,957	2,972,774
Deferred Outflows of Resources:					
Deferred charge on refunding	799,853	1,752,715	-	2,552,568	-
Total Deferred Outflows of Resources	799,853	1,752,715	-	2,552,568	-
Total Assets and Deferred Outflows of Resources	\$ 132,054,251	\$ 180,217,902	\$ 3,230,372	\$ 315,502,525	\$ 2,972,774

(Continued)

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
Liabilities and Net Position					
Liabilities:					
Current liabilities:					
Accounts payable	\$ 1,988,613	\$ 1,400,126	\$ 799,342	\$ 4,188,081	\$ -
Claims payable	-	-	-	-	827,797
Accrued salaries and benefits	78,094	137,183	33,135	248,412	-
Accrued expenses	344,066	1,052,293	3,222	1,399,581	-
Due to other funds	3,599,905	9,209,243	595,537	13,404,685	-
Due to other governments	7,346,801	-	-	7,346,801	-
Unearned revenue	185,000	-	71,558	256,558	-
Compensated absences, current portion	17,582	19,498	6,642	43,722	-
Workers' compensation liability	606	-	-	606	-
Capital lease, current portion	276,091	88,986	118,666	483,743	-
Notes payable, current portion	895,000	1,022,027	27,481	1,944,508	-
Bonds payable, current portion	870,000	1,007,000	40,000	1,917,000	-
Total current liabilities	<u>15,601,758</u>	<u>13,936,356</u>	<u>1,695,583</u>	<u>31,233,697</u>	<u>827,797</u>
Long-term liabilities:					
Compensated absences	58,844	65,258	18,734	142,836	-
Workers' compensation liability	1,225	-	-	1,225	-
Net other post-employment liability	3,345,755	3,302,186	296,230	6,944,171	-
Capital lease	407,240	142,040	159,298	708,578	-
Notes payable	9,238,129	10,410,675	1,123,556	20,772,360	-
Bonds payable	<u>38,472,064</u>	<u>133,701,790</u>	<u>473,682</u>	<u>172,647,536</u>	<u>-</u>
Total long-term liabilities	<u>51,523,257</u>	<u>147,621,949</u>	<u>2,071,500</u>	<u>201,216,706</u>	<u>-</u>
Total Liabilities	<u>67,125,015</u>	<u>161,558,305</u>	<u>3,767,083</u>	<u>232,450,403</u>	<u>827,797</u>
Net Position:					
Net investment in capital assets	63,418,759	29,995,105	(892,838)	92,521,026	-
Restricted	4,016,346	-	-	4,016,346	-
Unrestricted	<u>(2,505,869)</u>	<u>(11,335,508)</u>	<u>356,127</u>	<u>(13,485,250)</u>	<u>2,144,977</u>
Total Net Position	<u>64,929,236</u>	<u>18,659,597</u>	<u>(536,711)</u>	<u>83,052,122</u>	<u>2,144,977</u>
Total Liabilities and Net Position	<u>\$ 132,054,251</u>	<u>\$ 180,217,902</u>	<u>\$ 3,230,372</u>	<u>\$ 315,502,525</u>	<u>\$ 2,972,774</u>
Total net position of enterprise funds				\$ 83,052,122	
Adjustment to reflect the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise funds over time.				<u>(358,294)</u>	
Net position of business-type activities				<u>\$ 82,693,828</u>	

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds			Total	Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds		
Operating Revenues:					
Charges for services	\$ 12,698,776	\$ 20,268,665	\$ 5,182,810	\$ 38,150,251	\$ 11,651,686
Miscellaneous	288,181	482,186	15,640	786,007	-
Total operating revenues	<u>12,986,957</u>	<u>20,750,851</u>	<u>5,198,450</u>	<u>38,936,258</u>	<u>11,651,686</u>
Operating Expenses:					
Sewage pumping stations	1,110,371	-	-	1,110,371	-
Susquehanna treatment plant	-	2,641,726	-	2,641,726	-
Conestoga treatment plant	-	2,107,372	-	2,107,372	-
Collection system	864,936	-	573,158	1,438,094	-
Hauling and tipping	-	-	2,961,734	2,961,734	-
Transmission and distribution	-	1,414,533	-	1,414,533	-
Meters and meter labor	-	617,327	-	617,327	-
Laboratory	-	205,176	-	205,176	-
Sewage treatment plant	4,199,630	-	-	4,199,630	-
Administration	3,804,979	5,546,059	989,736	10,340,774	-
Grounds maintenance	163,619	365,042	227,832	756,493	-
Street cleaning	-	-	418,200	418,200	-
Wastewater and green initiatives	-	-	477,826	477,826	-
Health insurance claims	-	-	-	-	10,151,852
Insurance premiums	-	-	-	-	868,881
Depreciation expense	2,940,303	2,878,242	55,084	5,873,629	-
Total operating expenses	<u>13,083,838</u>	<u>15,775,477</u>	<u>5,703,570</u>	<u>34,562,885</u>	<u>11,020,733</u>
Operating Income (Loss)	<u>(96,881)</u>	<u>4,975,374</u>	<u>(505,120)</u>	<u>4,373,373</u>	<u>630,953</u>
Nonoperating Revenues (Expenses):					
State pension contribution	113,371	182,707	9,198	305,276	-
Investment income	28,165	15,022	50	43,237	117
Intergovernmental revenue	-	-	255,928	255,928	-
Insurance recovery	-	230,829	-	230,829	-
Amortization expense	(56,709)	(73,274)	-	(129,983)	-
Interest expense	(2,248,473)	(6,563,804)	(41,350)	(8,853,627)	-
Total nonoperating revenues (expenses)	<u>(2,163,646)</u>	<u>(6,208,520)</u>	<u>223,826</u>	<u>(8,148,340)</u>	<u>117</u>
Income (loss) before transfers and capital contributions	<u>(2,260,527)</u>	<u>(1,233,146)</u>	<u>(281,294)</u>	<u>(3,774,967)</u>	<u>631,070</u>
Transfers in (out)	1,032,911	(2,743,751)	(1,023,648)	(2,734,488)	-
Capital contributions	1,002,290	393,874	139,974	1,536,138	-
Change in Net Position Before Extraordinary Item	<u>(225,326)</u>	<u>(3,583,023)</u>	<u>(1,164,968)</u>	<u>(4,973,317)</u>	<u>631,070</u>
Extraordinary Item:					
Litigation Settlement	2,433,543	-	-	2,433,543	-
Change in Net Position	<u>2,208,217</u>	<u>(3,583,023)</u>	<u>(1,164,968)</u>	<u>(2,539,774)</u>	<u>631,070</u>
Net Position:					
Beginning of year	62,721,019	22,242,620	628,257		1,513,907
End of year	<u>\$ 64,929,236</u>	<u>\$ 18,659,597</u>	<u>\$ (536,711)</u>		<u>\$ 2,144,977</u>
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds				<u>(325,459)</u>	
Changes in net position of business-type activities				<u>\$ (2,865,233)</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2014

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
Cash Flows From Operating Activities:					
Cash received from users	\$ 12,907,273	\$ 20,867,609	\$ 5,007,583	\$ 38,782,465	\$ 11,651,686
Cash paid to suppliers	(7,661,133)	(7,824,980)	(3,524,260)	(19,010,373)	(11,136,492)
Cash paid to employees	(2,506,209)	(4,804,096)	(1,321,070)	(8,631,375)	-
Net cash provided by operating activities	2,739,931	8,238,533	162,253	11,140,717	515,194
Cash Flows From Investing Activities:					
Investment income received	28,165	15,022	50	43,237	117
Net sale of investments	202,227	-	-	202,227	-
Net cash provided by investing activities	230,392	15,022	50	245,464	117
Cash Flows From Capital and Related Financing Activities:					
Principal payments on capital leases	(358,077)	(97,156)	(117,830)	(573,063)	-
Proceeds from bond payable	7,663,284	27,798,139	516,158	35,977,581	-
Principal payments on notes payable	(870,000)	(990,767)	-	(1,860,767)	-
Principal payments on bonds payable	(840,000)	(981,600)	-	(1,821,600)	-
Proceeds from note payable	333,129	-	558,256	891,385	-
Interest paid	(2,215,821)	(6,325,197)	(44,277)	(8,585,295)	-
Acquisition of capital assets	(4,002,519)	(4,973,080)	(277,382)	(9,252,981)	-
Net change in escrow deposits	(1,456,445)	-	-	(1,456,445)	-
Net cash provided by (used in) capital and related financing activities	(1,746,449)	14,430,339	634,925	13,318,815	-
Cash Flows From Noncapital Financing Activities:					
Transfer in (out)	440,130	(2,743,751)	(430,867)	(2,734,488)	-
Due to (from) other funds	1,257,306	2,414,197	(132,572)	3,538,931	(2,716,469)
State pension contribution	113,371	182,707	9,198	305,276	-
Intergovernmental revenue	-	-	255,928	255,928	-
Net cash provided by (used in) noncapital financing activities	1,810,807	(146,847)	(298,313)	1,365,647	(2,716,469)
Net Increase (Decrease) in Cash and Cash Equivalents	3,034,681	22,537,047	498,915	26,070,643	(2,201,158)
Cash and Cash Equivalents:					
Beginning of year	29,667,495	10,584,526	-	40,252,021	2,201,158
End of year	\$ 32,702,176	\$ 33,121,573	\$ 498,915	\$ 66,322,664	\$ -

(Continued)

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2014
(Continued)

	Enterprise Funds				Internal Service Fund
	Sewer Fund	Water Fund	Other Enterprise Funds	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ (96,881)	\$ 4,975,374	\$ (505,120)	\$ 4,373,373	\$ 630,953
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	2,940,303	2,878,242	55,084	5,873,629	-
Loss on sale of capital assets	-	14,023	-	14,023	-
(Increase) decrease in assets:					
Receivables	(92,600)	116,758	(262,425)	(238,267)	-
Due from other governments	12,916	-	-	12,916	-
Prepaid expenses	89,365	5,846	775	95,986	-
Increase (decrease) in liabilities:					
Accounts payable	(582,393)	116,430	543,158	77,195	-
Claims payable	-	-	-	-	(115,759)
Accrued expenses	12,498	45,562	26,771	84,831	-
Unearned revenue	-	-	71,558	71,558	-
Compensated absences	(5,084)	6,573	19,111	20,600	-
Workers' compensation liability	845	(25,869)	-	(25,024)	-
Net other post-employment liability	460,962	105,594	213,341	779,897	-
Total adjustments	2,836,812	3,263,159	667,373	6,767,344	(115,759)
Net cash provided by operating activities	<u>\$ 2,739,931</u>	<u>\$ 8,238,533</u>	<u>\$ 162,253</u>	<u>\$11,140,717</u>	<u>\$ 515,194</u>
Noncash Capital Financing Activities:					
Issuance of capital lease	<u>\$ 559,524</u>	<u>\$ 68,966</u>	<u>\$ 66,017</u>	<u>\$ 694,507</u>	<u>\$ -</u>
Developers' contribution	<u>\$ -</u>	<u>\$ 393,874</u>	<u>\$ -</u>	<u>\$ 393,874</u>	<u>\$ -</u>
Debt transferred between enterprise funds	<u>\$ (592,781)</u>	<u>\$ -</u>	<u>\$ 592,781</u>	<u>\$ -</u>	<u>\$ -</u>
Capital assets, net of capital lease, transferred from governmental activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,974</u>	<u>\$ 139,974</u>	<u>\$ -</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2014

	Pension and OPEB Trust Funds	Private- Purpose Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	\$ 41,642	\$ -	\$ 423,653
Investments	121,883,915	271,876	-
Receivables:			
Accounts	-	-	18,960
Investment income	336,090	-	-
Other	-	-	1,490
Total Assets	122,261,647	271,876	444,103
Liabilities			
Benefits payable	-	-	24,840
Other liabilities	2,000	-	419,263
Total Liabilities	2,000	-	\$ 444,103
Net Position			
Restricted for pension and OPEB benefits and other purposes	\$122,259,647	\$ 271,876	

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF CHANGES IN NET POSITION FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2014

	Pension and OPEB Trust Funds	Private- Purpose Trust Funds
Additions:		
<hr/>		
Contributions:		
Employees	\$ 1,513,325	\$ -
Employer	5,712,360	-
	<u>7,225,685</u>	<u>-</u>
Total contributions		
Investment income:		
Net appreciation in fair value of investments	7,097,214	(40,743)
Interest and dividends	3,254,108	49,833
	<u>10,351,322</u>	<u>9,090</u>
Total investment income		
Less: investment expenses	(474,837)	-
	<u>9,876,485</u>	<u>9,090</u>
Net investment income		
Total additions	<u>17,102,170</u>	<u>9,090</u>
Deductions:		
<hr/>		
Benefits	7,868,658	50,245
Administrative expenses	91,580	-
	<u>7,960,238</u>	<u>50,245</u>
Total deductions		
Change in Net Position	9,141,932	(41,155)
Net Position:		
<hr/>		
Beginning of year	113,117,715	313,031
End of year	<u>\$ 122,259,647</u>	<u>\$ 271,876</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

BALANCE SHEET COMPONENT UNITS

DECEMBER 31, 2014

	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	Total Component Units
Assets and Deferred Outflows of Resources						
<u>Assets:</u>						
Current assets:						
Cash and cash equivalents	\$ 343,798	\$ 584,840	\$ 1,117,133	\$ 225,325	\$ 126,935	\$ 2,398,031
Cash and cash equivalents - restricted	-	-	-	1,827,238	-	1,827,238
Investments	-	-	357,275	-	-	357,275
Investments - restricted	-	-	3,463,726	-	-	3,463,726
Receivables (net of allowance for uncollectibles)						
Accounts	-	244,643	30,443	514,518	-	789,604
Other	-	-	-	30,722	36,442	67,164
Accrued interest	-	-	-	595,228	-	595,228
Current portion:						
Lease rental receivable	-	-	-	2,060,583	-	2,060,583
Due from other governments	-	-	-	785,288	-	785,288
Notes receivable	200,000	-	-	1,067,821	-	1,267,821
Properties held for resale	-	-	-	724,788	-	724,788
Prepaid expenses	-	-	66,569	-	-	66,569
Total current assets	543,798	829,483	5,035,146	7,831,511	163,377	14,403,315
Long-term assets:						
Lease rental receivable	-	-	-	21,194,871	-	21,194,871
Due from other governments	-	-	-	7,670,334	-	7,670,334
Notes receivable	-	-	-	1,205,949	-	1,205,949
Capital assets, not being depreciated	-	-	3,695,871	1,097,062	-	4,792,933
Capital assets, being depreciated, net	-	141,990	15,277,345	8,444,971	7,350	23,871,656
Total long-term assets	-	141,990	18,973,216	39,613,187	7,350	58,735,743
Total Assets	543,798	971,473	24,008,362	47,444,698	170,727	73,139,058
<u>Deferred Outflows of Resources:</u>						
Deferred charge on refunding	-	-	19,554	-	-	19,554
Total Deferred Outflows of Resources	-	-	19,554	-	-	19,554
Total Assets and Deferred Outflows of Resources	\$ 543,798	\$ 971,473	\$ 24,027,916	\$ 47,444,698	\$ 170,727	\$ 73,158,612

(Continued)

* - As of April 30, 2014

	Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	Total Component Units
Liabilities and Net Position						
Liabilities:						
Current liabilities:						
Accounts payable	\$ -	\$ 44,650	\$ 58,318	\$ 208,431	\$ 11,875	\$ 323,274
Accrued salaries and benefits	-	-	33,136	-	-	33,136
Accrued expenses	-	130,075	123,648	117,772	-	371,495
Line of credit	-	-	-	503,952	-	503,952
Due to primary government	-	-	-	288,591	-	288,591
Unearned revenue	-	27,196	69,057	1,073,741	5,460	1,175,454
Contingent liability from property resettlements	-	-	-	309,000	-	309,000
Due to lessee, current portion	-	-	-	404,132	-	404,132
Loans payable, current portion	-	-	150,000	-	-	150,000
Notes payable, current portion	-	-	-	108,000	-	108,000
Bonds payable, current portion	-	-	715,000	1,636,494	-	2,351,494
Total current liabilities	-	201,921	1,149,159	4,650,113	17,335	6,018,528
Long-term liabilities:						
Unearned revenue	-	-	-	8,446,611	-	8,446,611
Due to lessee	-	-	-	1,000,293	-	1,000,293
Loans payable	-	-	450,000	-	-	450,000
Notes payable	-	-	-	4,186,392	-	4,186,392
Bonds payable	-	-	24,353,344	22,059,521	-	46,412,865
Total long-term liabilities	-	-	24,803,344	35,692,817	-	60,496,161
Total Liabilities	-	201,921	25,952,503	40,342,930	17,335	66,514,689
Net Position:						
Net investment in capital assets	-	141,990	(3,211,848)	5,247,641	7,350	2,185,133
Restricted	-	-	-	841,356	-	841,356
Unrestricted	543,798	627,562	1,287,261	1,012,771	146,042	3,617,434
Total Net Position	543,798	769,552	(1,924,587)	7,101,768	153,392	6,643,923
Total Liabilities and Net Position	\$ 543,798	\$ 971,473	\$ 24,027,916	\$ 47,444,698	\$ 170,727	\$ 73,158,612

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

STATEMENT OF ACTIVITIES COMPONENT UNITS

YEAR ENDED DECEMBER 31, 2014

	Program Revenues			
Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Lancaster Industrial Development Authority	\$ 21,781	\$ 31,890	\$ -	\$ -
Lancaster Recreation Commission	3,041,667	2,838,535	473,962	-
The Parking Authority of the City of Lancaster	4,456,067	5,110,896	-	-
Redevelopment Authority of the City of Lancaster	3,405,403	867,858	1,550,068	200,393
Lancaster Downtown Investment District Authority *	397,952	361,381	70,203	-
Total component units	\$ 11,322,870	\$ 9,210,560	\$ 2,094,233	\$ 200,393
General revenues:				
Investment earnings				
Total general revenues				
Change in Net Position				
Net Position:				
Beginning of year				
End of year				

* - Year ended April 30, 2014

Net (Expenses) Revenue and
Changes in Net Position

Lancaster Industrial Development Authority	Lancaster Recreation Commission	The Parking Authority of the City of Lancaster	Redevelopment Authority of the City of Lancaster	Lancaster Downtown Investment District Authority *	Total
\$ 10,109	\$ -	\$ -	\$ -	\$ -	\$ 10,109
-	270,830	-	-	-	270,830
-	-	654,829	-	-	654,829
-	-	-	(787,084)	-	(787,084)
-	-	-	-	33,632	33,632
<u>10,109</u>	<u>270,830</u>	<u>654,829</u>	<u>(787,084)</u>	<u>33,632</u>	<u>182,316</u>
<u>1,162</u>	<u>915</u>	<u>397,202</u>	<u>1,767,109</u>	<u>-</u>	<u>2,166,388</u>
<u>1,162</u>	<u>915</u>	<u>397,202</u>	<u>1,767,109</u>	<u>-</u>	<u>2,166,388</u>
11,271	271,745	1,052,031	980,025	33,632	2,348,704
<u>532,527</u>	<u>497,807</u>	<u>(2,976,618)</u>	<u>6,121,743</u>	<u>119,760</u>	<u>4,295,219</u>
<u>\$ 543,798</u>	<u>\$ 769,552</u>	<u>\$ (1,924,587)</u>	<u>\$ 7,101,768</u>	<u>\$ 153,392</u>	<u>\$ 6,643,923</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lancaster, Pennsylvania (the “City”) was incorporated as a Borough on May 1, 1782. The City operates under the Optional Third Class City Charter Law. The governing body consists of an elected City Council (7 members), an elected Mayor, Controller, and Treasurer. The daily operations and management of the City are carried out by department directors, bureau chiefs, and elected officials of the City headed by the Mayor. Department directors and elected officials oversee the following departments: executive, legislative, administrative services, public safety, economic development and neighborhood revitalization, and public works.

The following is a summary of the City’s significant accounting policies.

A. Reporting Entity

The criteria used by the City to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the City reviews the applicability of the following criteria:

The City is financially accountable for:

- Organizations that make up its legal entity.
- Legally separate organizations, if City officials appoint a voting majority of the organization’s governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City as defined below:

Impose its will – If the City can significantly influence the programs, projects, or activities, or the level of services performed or provided by, the organization.

Financial benefit or burden – If the City (1) is entitled to the organization’s resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the City.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Component Units

A component unit is a legally separate entity that satisfies at least one of the following criteria: 1) elected officials of a primary government are financially accountable for the entity; or 2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. The following are the discretely presented component units of the City:

Lancaster Industrial Development Authority (LIDA)

LIDA consists of five members who are appointed to five-year terms by the Mayor with approval of City Council. These terms are arranged so that only one term expires each year. LIDA acts as liaison for securing tax-free loans for industrial and commercial development in Lancaster County. LIDA operates on a fiscal year ending December 31.

Lancaster Recreation Commission (Commission)

The Commission has an eleven-member Board consisting of two Lancaster School District Board members, two City Council members, one City employee, one Lancaster School District employee, one Lancaster Township employee, one Lancaster Township resident, and three at-large City residents appointed by City Council. The Commission is generally responsible for policies, rules, and regulations relating to public recreation programs. The Commission operates on a fiscal year ending December 31.

As a member of the Commission, the City is required to make a quarterly contribution to the Commission. For the year ended December 31, 2014, the City contributed \$305,656 to the Commission, which was reported as an expenditure of the General Fund.

The Parking Authority of the City of Lancaster (Parking Authority)

The Parking Authority Board is comprised of five members, the majority of whom must be city residents, appointed by the Mayor to serve a term of five years. The terms are staggered so that only one term expires each year. The Board is charged with the duty to acquire, construct, improve, and maintain parking projects; to conduct research of parking problems; to establish a permanent coordinated system of parking facilities; and to borrow money and issue bonds as required. The Parking Authority operates on a fiscal year ending December 31.

During the year ended December 31, 2014, the City paid the Parking Authority \$130,027 for employee parking.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Redevelopment Authority of the City of Lancaster (Redevelopment Authority)

The Redevelopment Authority consists of five city residents who are appointed by the Mayor to serve a term of five years. The Redevelopment Authority was created to eliminate blighted conditions that adversely affect the public health, safety, convenience, and welfare of the City. The Redevelopment Authority operates on a fiscal year ending December 31.

The City provided a total of \$507,391 Community Development Block Grant funds to the Redevelopment Authority during the year ended December 31, 2014. These funds were used for vacant and blighted properties in the City.

Lancaster Downtown Investment District Authority (LDIDA)

LDIDA consists of nine to eleven members who are appointed to five-year terms by the Mayor with the approval of City Council. LDIDA is a non-profit municipal authority, which is dedicated to the continued economic vitality of downtown Lancaster. LDIDA operates on a fiscal year ending April 30.

The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. Separately published financial statements of the above component units are available for public inspection in the Mayor's office.

City of Lancaster Office of Promotion (LOOP), formerly Mayor's Office of Special Events

The LOOP Board consists of 15 members who are appointed by the Mayor with City Council approval. The Board is entrusted with creating excitement and enthusiasm for the City by hosting, creating, and producing special events and to promote and market those events. LOOP meets the criteria for inclusion as a blended component unit in the City's financial statements; however, the activity of LOOP is deemed immaterial to the City's financial statements as a whole and, therefore, is not included.

City of Lancaster Revitalization and Improvement Zone Authority (CRIZ)

The CRIZ was established for the purposes of designating City Revitalization and Improvement Zones in order to engage in and finance economic development projects in such zones. The CRIZ board consists of nine voting members. Six members of the board are nominated by the State Senator representing the City and three members are nominated by the Mayor. All nine appointments must be approved by City Council. The City's preliminary determination is that the CRIZ meets the criteria for inclusion as a discretely presented

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2014

component unit in the City's financial statements; however, CRIZ activity during the year ended December 31, 2014 is deemed immaterial to the City's financial statements as a whole and, therefore, is not included. As of December 31, 2014, \$162,500 is due from CRIZ.

Related Organizations

Related organizations are not component units, yet there is some form of accountability, other than financial accountability, that exists between the primary government and the related organization because of the appointment authority. The following are related organizations to the City:

Lancaster Municipal Authority

The seven members of this Lancaster Municipal Authority are appointed by the Mayor with City Council approval to serve a term of five years. The Board is responsible for conducting all business necessary to finance and complete capital improvements required for operating a sewer system. The Lancaster Municipal Authority is currently inactive.

Metropolitan Lancaster Authority

The Metropolitan Lancaster Authority consists of seven members who are appointed to five-year terms by the Mayor with City Council approval. The Board has the authority to acquire, hold, construct, improve, maintain, operate, own, and lease (either in the capacity of lessor or lessee) waterworks, water supply works, and water distribution systems for the City and other authorized areas in Lancaster County. The Metropolitan Lancaster Authority is currently inactive.

Lancaster Airport Authority (Airport Authority)

The Airport Authority was created by joint resolution of the Council of the City and the Board of Commissioners of the County of Lancaster in June 1950. The Airport Authority was created for the purpose of acquiring, holding, improving, maintaining, operating, owning, and leasing the Lancaster Municipal Airport and all facilities necessary for its operation.

The Board is comprised of five members who are appointed to five-year terms with only one member's term expiring each year. Two of the Board members are appointed by the Mayor and approved by City Council; an additional two are appointed by the Board of Commissioners of the County of Lancaster; and the fifth member is appointed by the City and the County of Lancaster jointly.

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Lancaster Higher Education Authority

The Lancaster Higher Education Authority (LHEA) has five Board members who serve for five-year terms of office. Members are appointed by the Mayor with City Council approval. LHEA is organized for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning, or leasing buildings and facilities for private, non-profit, non-sectarian colleges and universities, state-related universities, and community colleges.

Housing Authority of the City of Lancaster (Housing Authority)

The Housing Authority Board consists of five members who are appointed for five-year terms by the Mayor with City Council approval. These terms are arranged so that only one term expires each year. The Board is entrusted with ensuring that standard, low-cost housing is available for low-income persons.

Lancaster County Convention Center Authority (Convention Center Authority)

The Convention Center Authority was created jointly by the City Council of the City, and the Board of Commissioners of the County of Lancaster, in September 1999. The Convention Center Authority was created for the purpose of constructing a convention center in the City.

The Board is comprised of seven members who serve two, three, or four-year terms of office. Three of the Board members are appointed by the Mayor with City Council approval; an additional three are appointed by the Board of Commissioners of the County of Lancaster; and the seventh member appointment shall alternate between the City and the County of Lancaster.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2014

activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension, other post-employment benefits, and claims and judgments, are recorded only when payment is due.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are recognized as revenue if they are both measurable and available.

CITY OF LANCASTER, PENNSYLVANIA

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The City reports the following major governmental funds:

General Fund

This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

Capital Projects

This fund accounts for the acquisition, construction, and improvement of major general capital assets.

Debt Service Fund

This fund accounts for the accumulation of resources for, and payment of, interest and principal on general long-term debt and other long-term liabilities.

Miscellaneous State Grants Fund

This fund accounts for state grants received by the City.

The City reports the following major proprietary funds:

The City operates two major enterprise funds: The Sewer Fund and the Water Fund account for the provision of water and sewer services to residents within the City's service area.

Additionally, the City reports the following fund types:

Internal Service Fund

This fund accounts for the financing of insurance services provided to the other funds of the City.

Pension and Other Post-Employment Benefit (OPEB) Trust Funds

These funds account for the resources that are required to be held in trust for the members and beneficiaries of the City's defined benefit pension, defined contribution pension, and OPEB plans.

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Private-Purpose Trust Fund

This fund is used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Agency Funds

These funds account for monies held by the City as an agent for other governmental units.

Component units are accounted for as follows:

The discretely presented component units are accounted for as enterprise funds. As such, they account for the activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Services from such activities are provided to outside parties. LIDA is presented on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. However, the effect of this departure is immaterial to the discretely presented component units as a whole.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. The Water and Sewer Funds also recognize, as operating revenue, the portion of tap fees intended to recover the cost of certain prior capital outlays. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and interest-bearing bank deposits.

For the purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

Loans Receivable

Loans receivable related to governmental funds are recorded as expenditures when issued and loan principal payments related to governmental funds are reflected as program income when received.

Property Taxes

Property taxes are recognized as receivables in the year levied. In governmental funds, revenue is reported as unavailable unless the taxes are received within sixty days subsequent to year-end.

Interfund Receivables and Payables

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed.

Since one of the City's component units reports on an April 30 fiscal year-end and is included in the City's December 31 financial statement, amounts due to/from component units/primary government may not net to zero. Other differences may be the result of

CITY OF LANCASTER, PENNSYLVANIA

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application of accounting principles generally accepted in the United States of America regarding contingent liabilities and receivables.

Unavailable/Unearned Revenues

Unavailable revenue is recorded for governmental fund receivables that are not both measurable and available. Unavailable revenue consists of real estate taxes, earned income taxes, and local services taxes. Collections of real estate taxes, earned income taxes, and local services taxes are recognized as revenue in the year in which they are measurable and available.

Inflows that do not yet meet the criteria for revenue recognition, such as grant revenues collected in advance, are recorded as unearned revenue for both the government-wide and the governmental fund financial statements. For the Parking Authority, parking fees, contract parking income, and lease rental revenue are recognized in the period when such revenues pertain. Any amounts collected in advance of such periods are reflected in the balance sheet as unearned revenue.

Long-Term Obligations

Long-term obligations, such as bonds and notes, are recorded at the fund level in the proprietary funds and at the government-wide level for the governmental and business-type activities. Amounts payable within one year are classified as current liabilities on the proprietary fund's balance sheet and the government-wide statement of net position.

Fund Balance

In the fund financial statements, fund balance of governmental funds is classified in five separate categories. The five categories, and their general meaning are as follows:

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures and inventory.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by City Council. Such commitment is made via a resolution by City Council and must be made

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prior to the end of the year. Removal of this commitment requires a resolution by City Council.

- Assigned – This category represents intentions of the Mayor to use the funds for specific purposes. Through a resolution of City Council, the Mayor or his/her designee has been delegated the responsibility to assign funds.
- Unassigned – This category represents all other funds not otherwise defined.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

Net position of the government-wide and proprietary funds is categorized as net investment in capital assets, restricted, or unrestricted. Net investment in capital assets consists of all capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount. The restricted category represents the balance of assets restricted by requirements of bonds and other externally imposed constraints or by legislation in excess of the related liabilities and deferred inflows of resources payable from restricted assets. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Redevelopment Authority

At December 31, 2014, the Redevelopment Authority has a balance of \$841,356 restricted for debt service.

Capital Assets

Capital assets of the primary government, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, dams, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of three years for general capital assets and other enterprise funds and one year for Sewer Fund and Water Fund capital assets. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is computed on a straight-line basis, with the exception of the Sewer Fund and Water Fund, which use the composite remaining life method using the average life term of group assets. During the year ended December 31, 2014, the City prospectively changed the Sewer and Water Fund's depreciation method for calculation of depreciation expense, as well as estimated useful lives of capital assets and capitalization threshold. Prior to the year ended December 31, 2014, the City used straight-line basis for all capital assets. Useful lives are as follows:

General Fund and other enterprise funds capital assets:

Land improvements	20 years
Buildings	50 years
Machinery, equipment, and vehicles	3 - 20 years
Infrastructure	10 - 20 years

Sewer Fund capital assets:

Sewer systems	55 - 65 years
Equipment and vehicles	4 - 40 years

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Water Fund capital assets:

Water systems	20 - 110 years
Equipment and vehicles	3 - 40 years

The Commission's policy is to capitalize all capital assets at a cost in excess of \$500.

Capital assets are defined by the Parking Authority as assets with a useful life in excess of one year and an initial individual cost of more than \$5,000. Estimated useful lives assigned to the various assets are as follows:

Parking garages, lots, and rental complex	10 to 40 years
Office furnishings, and equipment	5 to 10 years
Equipment	7 to 10 years
Vehicles	5 years

The Redevelopment Authority's property, plant, and equipment with useful lives of more than one year are stated at historical cost. The Redevelopment Authority generally capitalizes assets with a cost of \$5,000 or more as purchases and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method over their useful lives. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are generally as follows:

Buildings	40 years
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Capital assets are defined by LDIDA as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at cost. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	5 to 7 years
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Capitalization of Interest

Interest expense that relates to the cost of acquiring or constructing capital assets by the City is capitalized. Interest is capitalized in the business-type activities and enterprise fund financial statements.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

D. Other Policies

Budgetary Data

In August of each year, all bureau chiefs of the City submit requests for appropriation to the Mayor so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past years, current year estimates, and requested appropriations for the next fiscal year.

Before November 30, the proposed budget is presented to City Council for review. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The budget must be approved by City Council by the end of December. Any changes in the budget must be within the revenues and reserves estimated as available by the Mayor, or the revenue estimated may be changed by an affirmative vote of a majority of the City Council. All unencumbered budget appropriations lapse at the end of each fiscal year.

The City adopts annual budgets for the General Fund, certain Special Revenue Funds, and the Enterprise Funds. Budgets are adopted on a project basis for the majority of special revenue funds. Budgets for capital project funds are adopted on a multi-year basis.

Property Taxes

Property taxes are levied as of January 1, on property values assessed as of the same date. The billings provide for a 2% discount period through February 28 and for late payment penalties after April 30. On December 31 of the current year, the bill becomes delinquent and is turned over to the County of Lancaster Tax Claim Bureau for collection.

The City real estate tax rate maximums are provided for in the Third Class City Code. The City may assess up to 25 mills for general governmental purposes. In addition, the millage may be increased to pay for the interest and principal on City indebtedness by an unspecified amount.

In 2014, the City assessed 13.04 mills for general government purposes.

Compensated Absences

The City allows nonuniformed employees and uniformed police officers to accumulate up to a maximum of 200 hours and uniformed firefighters to accumulate up to a maximum of 480 hours of compensatory time. The compensatory time is paid to the employee at termination. The accumulated hours are multiplied by the employee's current salary rate to determine the

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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aggregate cost. For the year ended December 31, 2014, the aggregate cost to the City for the accumulated compensatory time has been estimated at \$802,597 and \$114,625 for governmental activities and business-type activities, respectively.

The City allows nonuniformed union and nonunion employees to accumulate up to a maximum of 200 and 360 days of sick leave, respectively. Upon retirement, at age sixty-two, after twenty years of service, the employee would be paid \$10 per day for unused sick leave up to a maximum of 120 days. The City allows firefighters to accumulate up to 297 days of sick leave. Upon retirement, the employee would be paid \$20 per day for unused sick leave up to 150 days. The City allows police officers to accumulate up to 500 days of sick leave and effective August 8, 2008, new police hires only accumulate up to 297 days. Upon retirement, the employee would be paid \$10 per day for unused sick leave, to a maximum of 40% of the accrued sick leave. For the year ended December 31, 2014, the aggregate cost to the City for accumulated vested sick days has been estimated at \$148,015 and \$4,500 for governmental activities and business-type activities, respectively.

The City allows employees to accumulate up to a maximum of five vacation days each year. Vacation days are paid to the employee at termination. The accumulated days are multiplied by the employee's current salary rate to determine the aggregate cost. For the year ended December 31, 2014, the aggregate cost to the City for accumulated vacation days has been estimated at \$201,718 and \$67,433 for governmental activities and business-type activities, respectively.

The liability for compensated absences of the governmental activities is not reported in the balance sheet of the governmental funds and, accordingly, represents a reconciling item between the fund and government-wide presentations.

Retirement and OPEB Plans

The City sponsors and administers four pension plans, which cover nonuniformed and uniformed employees. The Plans consist of three defined benefit plans and one defined contribution plan covering substantially all employees. The City sponsors and administers an OPEB plan, which covers substantially all employees.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Adoption of Governmental Accounting Standards Board (GASB) Statement

The City has adopted GASB Statement No. 67, “*Financial Reporting for Pension Plans.*” This Statement enhances note disclosures and required supplementary information (RSI) for the City’s defined benefit pension plans.

Pending Pronouncements

In June 2012, the GASB issued Statement No. 68, “*Accounting and Financial Reporting for Pensions.*” In addition, in November 2013, the GASB issued Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date.*” These Statements revise and establish reporting requirements for most governments that provide their employees with pension benefits. The provisions of these Statements are effective for the City’s December 31, 2015 financial statements.

In February of 2015, the GASB issued Statement No. 72, “*Fair Value Measurement and Application.*” This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of GASB Statement No. 72 are effective for the City’s December 31, 2016 financial statements.

The effect of these statements has not yet been determined.

Reclassifications

Certain reclassifications have been made to prior year information in order for them to be in conformity with the current year presentation.

2. DEPOSITS AND INVESTMENTS

Primary Government

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury obligations, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes. In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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The deposit and investment policy of the City adheres to state statutes, the Third Class City Code, and prudent business practice.

The City maintains a cash and investment pool that is available for use by all funds with the exception of the Pension and OPEB Trust Funds. At December 31, 2014, the book balance of the pooled funds was \$60,340,669 and the bank balance was \$61,980,426.

A. Deposits

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2014, the City's book balance was \$71,892,003 and the bank balance was \$73,438,622. Of the bank balance, \$806,291 was covered by federal depository insurance and the remaining \$72,632,331 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Cash and cash equivalents:	
Governmental activities:	
Unrestricted	\$ 475,082
Restricted	4,628,962
Business-type activities:	
Unrestricted	200,850
Restricted	66,121,814
Fiduciary funds	<u>465,295</u>
Total cash and cash equivalents	<u>\$ 71,892,003</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

B. Investments

The fair value of the investments of the City at December 31, 2014 was as follows:

Investments	Fair Value
Money market funds	\$ 9,769,780
U.S. government agency obligations	166,450
U.S. government obligations	11,430,509
Corporate bonds and notes	20,875,173
Mutual funds - balanced	5,981,642
Mutual funds - fixed income	293,221
Mutual funds - equities	1,680,391
Equities	72,612,569
Total investments	\$ 122,809,735

Investments	
Governmental activities:	
Unrestricted	\$ 388,384
Restricted	194
Business-type activities:	
Restricted	265,366
Fiduciary funds	122,155,791
Total investments	\$ 122,809,735

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The City does not have an investment policy for custodial credit risk. Investments of the City are held by the counterparty, with \$115,231,981 held in the City's name or in the name of the City's multiple Pension Plans and \$7,577,754 registered in the name of the Trustee.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. At December 31, 2014, more than five percent of the City's investments were held with the following issuer:

	Fair Value	Percent of Investments
Goldman Sachs Financial Square Federal Fund Money Market Fund	\$ 7,113,125	5.79%

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2014

Credit risk. The City does not have a formal policy that would limit its investment choices with regard to credit risk. The City’s investments had the following level of exposure to credit risk as of December 31, 2014:

	Fair Value	Rating
Money market funds	\$ 7,118,871	AAA
Money market funds	2,650,909	Unrated
U.S. government agency obligations	166,450	AA+
U.S. government obligations	11,430,509	AA+
Corporate bonds and notes	1,107,519	AAA
Corporate bonds and notes	608,471	AA+
Corporate bonds and notes	1,114,357	AA
Corporate bonds and notes	4,988,826	AA-
Corporate bonds and notes	4,944,166	A+
Corporate bonds and notes	1,949,759	A
Corporate bonds and notes	6,162,075	A-

Interest rate risk. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following is a list of the City’s investments and their related average maturities:

	Fair Value	Investment Maturity			Subsequent to 2025
		2015	2016-2020	2021-2025	
Money market funds	\$ 9,769,780	\$ 9,769,780	\$ -	\$ -	\$ -
U.S. government agency obligations	166,450	-	51,329	14,996	100,125
U.S. government obligations	11,430,509	11,430,509	-	-	-
Corporate bonds and notes	20,875,173	449,328	16,726,262	3,699,583	-
	\$ 42,241,912	\$21,649,617	\$ 16,777,591	\$ 3,714,579	\$ 100,125

C. Restricted Cash, Cash Equivalents, and Investments

Governmental Activities

As of December 31, 2014, the City had restricted cash, cash equivalents, and investments of \$4,629,156, which represents \$100,194 restricted for the payment of workers’ compensation claims, and \$4,528,962 restricted for various City projects.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Business-Type Activities

As of December 31, 2014, the City had cash, cash equivalents, and investments of \$66,387,180 restricted for various sewer, water, and stormwater projects.

Component Units

LIDA

LIDA typically maintains cash and cash equivalents in local banks. Cash is insured by the Federal Deposit Insurance Corporation up to a limit of \$250,000 per bank as of December 31, 2014. At times during the year ended December 31, 2014, LIDA's cash balances may have exceeded the federally insured limits.

Commission

The carrying amount of the Commission's deposits was \$584,840 as of December 31, 2014. The bank balance totaled \$605,717 as of December 31, 2014.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. Act No. 72 of 1971, as amended, allows banking institutions to satisfy the collateralization requirement by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

The bank balance of the Commission's cash deposits is categorized as follows to give an indication of the level of risk assumed by the Commission at December 31, 2014:

Insured	\$ 338,239
Collateralized	
Collateral held by pledging bank's trust department not in the Commission's name	<u>267,478</u>
Total	<u><u>\$ 605,717</u></u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Parking Authority

A. Deposits

The Parking Authority's available cash is invested in demand deposit accounts and petty cash. The carrying amounts of the cash deposits at December 31, 2014 consist of the following:

Cash Deposits:	
Cash and cash equivalents	\$ 1,081,502
Petty cash	<u>35,631</u>
	<u>\$ 1,117,133</u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Parking Authority's deposits may not be returned to it. The Parking Authority has custodial credit risk on cash deposits. The Parking Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

As of December 31, 2014, the Parking Authority's cash deposits were \$1,117,133. The bank balance as of December 31, 2014 was \$1,087,897. At December 31, 2014, \$255,454 was covered by federal depository insurance and \$832,443 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

B. Investments

As of December 31, 2014, the Parking Authority had the following investments:

<u>Investments</u>	<u>Fair Value</u>
Restricted:	
U.S. Government money market fund	\$ 1,489,196
U.S. Government securities fixed income securities	<u>1,974,530</u>
Total Restricted	<u>\$ 3,463,726</u>
Unrestricted:	
U.S. Government money market fund	<u>\$ 357,275</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Custodial credit risk. Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Parking Authority does not have a formal policy that would limit its investment choices with regard to custodial credit risk. At December 31, 2014, all investments of the Parking Authority are held by the financial institution's department or agency, in the Parking Authority's name.

Concentration of credit risk. The Parking Authority places no limits on the amount it may invest in any one issuer. At December 31, 2014, more than five percent of the Parking Authority's investments were held with the following issuers:

	<u>Fair Value</u>	<u>Percent of Investments</u>
Goldman Sachs Financial Square Treasury Obligation		
Money Market Fund	\$ 1,846,471	48.32%

Credit risk. The Parking Authority does not have a formal policy that would limit its investment choices with regard to credit risk. As of December 31, 2014, the Parking Authority's investments in U.S. Government Securities Fixed Income Securities were rated AAA. As of December 31, 2014, the Parking Authority's investments in U.S. Government Money Market Fund were rated AAA.

The Parking Authority is permitted to invest its funds as defined in the Pennsylvania Parking Authorities Law. Authorized types of investments include short-term, highly liquid debt instruments that include commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. The Parking Authority's investment policy is consistent with these limitations. Non-negotiable certificates of deposits are recorded at cost. Investment income is recognized when earned.

Interest rate risk. As a means of managing its exposure to fair value losses arising from changes in interest rates, the Parking Authority's investment policy permits investments with a maturity date in excess of 18 months, provided market conditions and projected use of funds warrant a longer term. At December 31, 2014, the Parking Authority's U.S. Government Money Market Fund investments had maturities of less than one year and the U.S. Government Securities Fixed Income Securities had maturities greater than 10 years.

C. Restricted Cash, Cash Equivalents, and Investments

The terms of the bond indentures require that certain assets be restricted in favor of the bondholders and for capital projects. Restricted assets represent monies held or receivable by the independent trustee.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Redevelopment Authority

Under Section 7.1 of the Municipal Authorities Act, the Redevelopment Authority is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

A. Deposits

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Redevelopment Authority's deposits may not be returned to it. The Redevelopment Authority does not have a policy for custodial credit risk. As of December 31, 2014, \$418,924 of the Redevelopment Authority's bank balance of \$1,206,041 was exposed to custodial credit risk.

Uninsured and collateral held by the pledging bank's trust department not in the Redevelopment Authority's name	<u>\$ 418,924</u>
Reconciliation to financial statements:	
Uninsured amount above	\$ 418,924
Insured amount	787,117
Outstanding checks	(1,375)
Outstanding deposits	6,250
Money market fund shown as cash and cash equivalents	<u>841,647</u>
	<u>\$ 2,052,563</u>
Cash and cash equivalent - unrestricted per financial statements	\$ 225,325
Cash and cash equivalent - restricted per financial statements	<u>1,827,238</u>
Total cash per financial statements	<u>\$ 2,052,563</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

B. Restrictions

Of the total cash and cash equivalents of \$2,052,563 at December 31, 2014, \$1,827,238 is restricted. \$320,456 is restricted for future redevelopment purposes, \$1,096,735 is restricted for future debt service requirements as per certain loan and bond documents, \$404,132 is restricted for capital improvements on behalf of a lessee, and \$5,915 is required to be used for parking garage construction costs as per the City.

C. Investments

As of December 31, 2014, the Redevelopment Authority held investments in the GS Financial Square Treasury Obligations money market fund with a fair market value of \$841,647, which is included as cash and cash equivalents - restricted in the financial statements.

Interest Rate Risk and Credit Risk. The Redevelopment Authority invests certain bond and note proceeds required to be kept on deposit as a result of the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and the Tax Increment Notes Trust Indenture (Note 10). The guidelines set forth in these indentures limit the Redevelopment Authority's interest rate and credit risk by limiting investment choices to certain U.S. government and other select high-grade investments and certain maturities. There are no requirements pertaining to investment diversification to limit exposure to custodial credit risk. At December 31, 2014, 100% of the Redevelopment Authority's investments are in the GS Financial Square Treasury Obligations money market fund and are rated AAAM by Standard & Poor's.

LDIDA

The financial instruments that potentially subject LDIDA to credit risk consist primarily of cash deposits. LDIDA maintains its cash deposits with financial institutions where the account balances may at times exceed Federal Deposit Insurance Corporation insured limits. However, the balances in excess of federal deposit insurance are collateralized by a pool of marketable securities as required by Act 72. All deposits were insured at April 30, 2014.

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term United States and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes. In addition to the investments authorized for governmental funds, fiduciary fund investments

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy of LDIDA adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of LDIDA.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, LDIDA's deposits may not be returned to it. LDIDA does not have a policy for custodial credit risk. As of April 30, 2014, none of LDIDA's bank balance was exposed to custodial credit risk.

3. RECEIVABLES

Primary Government

Governmental Activities

Receivables as of December 31, 2014, for the City's governmental activities, individual major governmental funds, non-major funds in the aggregate, and applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Miscellaneous State Grants</u>	<u>Non-major funds</u>	<u>Governmental Activities</u>
Receivables:					
Taxes, gross	\$ 2,540,715	\$ -	\$ -	\$ -	\$ 2,540,715
Allowances for uncollectibles	-	-	-	-	-
Taxes, net	<u>2,540,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,540,715</u>
Accounts, gross	946,576	5,060	-	1,779,028	2,730,664
Allowances for uncollectibles	<u>(478,802)</u>	<u>-</u>	<u>-</u>	<u>(1,757,980)</u>	<u>(2,236,782)</u>
Accounts, net	<u>467,774</u>	<u>5,060</u>	<u>-</u>	<u>21,048</u>	<u>493,882</u>
Notes, gross	60,000	-	-	9,016,560	9,076,560
Allowances for uncollectibles	<u>(60,000)</u>	<u>-</u>	<u>-</u>	<u>(9,016,560)</u>	<u>(1,924,721)</u>
Notes, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,151,839</u>
Investment income	-	-	-	121,986	121,986
Total receivables	<u>\$ 3,008,489</u>	<u>\$ 5,060</u>	<u>\$ -</u>	<u>\$ 143,034</u>	<u>\$ 10,308,422</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Notes Receivable

As of December 31, 2014, the City has outstanding program loans (notes receivable) aggregating \$9,076,560. These various program loans bear interest at rates ranging from 0% to 7%, maturing over terms of 1 to 30 years, through 2040.

A summary of notes receivable activity for the year ended December 31, 2014 is as follows:

Balance January 1, 2014	New Loans Issued	Forgiveness/ Write-offs/ Principal Receipts	Balance December 31, 2014
\$ 6,991,065	\$ 788,887	\$ (628,113)	\$ 7,151,839

In addition, as of December 31, 2014, there were \$1,253,186 in loans that are forgivable over a period of time, subject to the terms of the loan agreement. The City does not expect to receive any payments on these loans. Therefore, an allowance for doubtful accounts has been established in the fund and the government-wide financial statements at 100% of the note receivable balance.

Business-Type Activities

Receivables and allowances for uncollectible accounts for the City's business-type activities, including individual major funds and non-major fund are as follows:

	Sewer Fund	Water Fund	Other Enterprise Funds	Total
Receivables:				
Accounts, gross	\$ 9,606,164	\$ 3,302,447	\$ 1,638,038	\$ 14,546,649
Allowances for uncollectibles	(3,859,491)	-	-	(3,859,491)
Accounts, net	5,746,673	3,302,447	1,638,038	10,687,158
Other, gross	88,996	11,514	42,555	143,065
Allowances for uncollectibles	-	-	-	-
Other, net	88,996	11,514	42,555	143,065
Total receivables	\$ 5,835,669	\$ 3,313,961	\$ 1,680,593	\$ 10,830,223

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

The Sewer Fund's allowance for uncollectible accounts totaling \$3,859,491 represents the cumulative amount of bulk treatment accounts receivable that is the subject of on-going billing disputes with municipalities that are connected to the City's sewer system.

Component Units

LIDA

LIDA loaned \$100,000 to The Lancaster County Redevelopment Authority for the baseball stadium project, at 3%, with all accrued interest and principal due June 30, 2025. The loan was made on September 2, 2005, and the note is secured by a guaranty from the County of Lancaster.

LIDA loaned \$100,000 to the Lancaster Housing Opportunity Partnership to further its activities in support of its goals as a nonprofit organization engaged in community economic development, at 1%, with all accrued interest and principal due November 1, 2018. The loan was made on November 1, 2013.

Redevelopment Authority

The Redevelopment Authority's receivables relate to grants receivables, notes receivables, lease rental receivables, and delinquent real estate tax claims purchased from the City. The delinquent real estate tax receivables are recorded at carrying value, including base, penalty, and interest, offset by commission payable. Notes receivables are recorded at carrying value. The Redevelopment Authority reduces the receivable for delinquent real estate tax claims by an allowance for doubtful accounts as determined based on the Redevelopment Authority's best estimate.

Accounts Receivable

A summary of receivables at December 31, 2014 follows:

Delinquent taxes receivable	\$	579,084
Less: Allowance for doubtful accounts		<u>(64,566)</u>
Total receivables	\$	<u><u>514,518</u></u>

Annually, the Redevelopment Authority purchases the delinquent real estate tax claims of the City. During the year ended December 31, 2014, the Redevelopment Authority purchased the full amount of delinquent real estate tax claims from the City for the year 2013 with a total

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

carrying value of \$895,812 for total consideration of \$846,663. The City's continuing involvement with the delinquent real estate tax receivables is effectively terminated.

In the event that this annual cycle of purchasing delinquent tax claims would be discontinued, the Redevelopment Authority would essentially return any accumulated cash balances to the City. Therefore, the Redevelopment Authority has recorded a payable to the City in the amount of \$263,591 as of December 31, 2014, which reflects the cumulative positive results of the tax claim collections for the year ended December 31, 2014. Under certain circumstances, the City has the right or the obligation to repurchase all or a portion of the delinquent tax claims from the Redevelopment Authority.

The Redevelopment Authority has financed this transaction with borrowings on a line of credit and has assigned a security interest in the delinquent tax claims to the lender. Collections of the delinquent real estate taxes by the Lancaster County Tax Collection Bureau on behalf of the Redevelopment Authority are used to meet debt service requirements. The City and the Redevelopment Authority may decide to repeat this transaction again as real estate taxes related to the City's tax years become delinquent.

Lease Rental Receivable

The Redevelopment Authority has entered into a lease agreement with Penn Square Partners as further outlined in Note 17 for the Hotel unit of the Penn Square Hotel and Convention Center. The Redevelopment Authority classifies this lease as a capital lease and utilizes direct financing lease accounting.

The lease rental receivable represents the discounted future minimum lease payments, which are comprised of base rent and minimum participation rent. The base rental payments are required to be used to meet debt service requirements on the Series of 2005 Taxable Bonds, the minimum participation rent of approximately \$200,000 per annum is not restricted for such purpose. The discount rate is the interest rate applicable to the Series of 2005 Taxable Bonds, the proceeds of which were used to finance the underlying hotel construction costs. The imputed interest income of \$6,909,448 as of December 31, 2014 is presented as part of unearned revenue.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Future Minimum Rental Payments:

The following schedule represents the future minimum rental payments due to the Redevelopment Authority as of December 31, 2014:

2015	\$ 2,060,583
2016	2,092,468
2017	2,126,658
2018	2,163,319
2019	2,202,630
2020-2024	11,709,796
2025-2029	900,000
Total	<u>\$ 23,255,454</u>

Commitments:

The Redevelopment Authority has committed portions of the minimum rental payments to be granted to LOOP as follows:

2015	\$ 100,000
2016	100,000
2017	100,000
2018	100,000
	<u>\$ 400,000</u>

The Redevelopment Authority has committed portions of the minimum rental payments to be granted to the Lancaster County Convention Center Authority as follows:

2015	\$ 100,000
2016	100,000
2017	100,000
2018	100,000
2019	100,000
2020-2021	150,000
	<u>\$ 650,000</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Due from Other Governments

A summary of grants receivable due from other governmental units at December 31, 2014 follows:

City of Lancaster:	
Community Development Block Grant	\$ 27,670
Commonwealth of Pennsylvania:	
Redevelopment Assistance Capital Program Grant	300,000
Infrastructure and Facilities Improvement Program Grant	<u>8,127,952</u>
	8,455,622
Current portion	<u>785,288</u>
Long-term portion	<u><u>\$ 7,670,334</u></u>

Grants receivables related to the Infrastructure and Facilities Improvement Program are restricted for debt service payments related to the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and First Supplemental Indenture (Note 10). The grant funds are payable over a twenty-year period to mirror the debt service on aforementioned bonds. The grants receivable has been discounted utilizing the interest rate underlying the associated bond series and is presented at its present value.

Grants receivables related to the Redevelopment Assistance Capital Program Grant are restricted for debt service payments on the Redevelopment Authority's line of credit related to the construction of the parking garage.

A summary of interest due from other governmental units which has been accrued on grants at December 31, 2014 follows:

Commonwealth of Pennsylvania:	
Interest accrued on Infrastructure and Facilities Improvement Program Grant, carried at present value	\$ 585,666
Other accrued interest	<u>9,562</u>
Total	<u><u>\$ 595,228</u></u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Notes Receivable

Notes receivable at December 31, 2014 were as follows:

Note receivable from Neighborhood Services of Lancaster, due on demand with no interest. By mutual agreement, this loan is currently being repaid in monthly principal installments of \$598. The loan is secured by a mortgage on property at 134 and 136 South Prince Street.	\$ 9,562
Note receivable from Lancaster Press Partners, due October 2015. The loan has one scheduled payment at maturity for principal and interest of 1.50%. The loan is secured by a mortgage on property at 401-403 North Prince Street and at 37 and 39 West Lemon Street.	900,000
Note receivable from Penn Square Partners. This loan of originally \$2,250,000 accrued interest at 2.00% through November 2007. Beginning December 2007, the loan is payable in monthly installments of \$15,539 including interest at 2.00%. This loan is secured by a mortgage on the leasehold interest held by Penn Square Partners in the site of the Penn Square Hotel. A final balloon payment of \$900,566 is due in November 2017.	<u>1,364,208</u>
	<u>2,273,770</u>
Current portion	<u>1,067,821</u>
Long-term portion	<u><u>\$ 1,205,949</u></u>

LDIDA

LDIDA issues assessments to property owners within the district. The bills are mailed at the beginning of the fiscal year with the following terms:

2% discount period	May 1 to June 30
Face amount period	July 1 to August 31
10% penalty period	September 1 and thereafter

If payment for the current year is not received by LDIDA prior to December 31, a final delinquency notice is sent to the property owner. As of May 15th of the subsequent year, all unpaid delinquent assessments have liens filed against their property.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

4. DELINQUENT TAX LIEN RECEIVABLES

During the year ended December 31, 2014, the City sold the full amount of delinquent real estate tax lien receivables for the 2013 tax year. Since the City's continuing involvement with the delinquent real estate tax liens is effectively terminated, these transactions were treated as a sale, as opposed to a collateralized borrowing. The total value of the 2013 delinquent tax lien receivables at the date of sale was \$907,053, which is the total assessed value of real estate taxes, plus any applicable penalties, less collections received from the County. The total received in 2014 by the City for this sale was \$806,907.

In February 2015, the City sold the full amount of delinquent real estate tax lien receivables for the 2014 tax year. The full amount received by the City for this sale was \$806,059 and the revenue was recognized in the year of sale.

5. PROPERTIES HELD FOR RESALE

Component Unit

Redevelopment Authority

Within the scope of its organizational purpose, the Redevelopment Authority acquires through purchase, gift, or eminent domain, blighted properties and in turn, sells these properties to private, corporate, or governmental entities for rehabilitation. After rehabilitation, the goal is for the properties to be occupied by low or moderate income families, preferably as the owner. The properties are classified as assets of the Redevelopment Authority upon acquisition and until they are resold for rehabilitation. The properties are carried at the lower of the just compensation paid or payable for them or fair market value. When other costs, such as property improvements, environmental remediation, or delinquent taxes are deemed to be material, they are also included in the value of the properties held for resale.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

8 North Marshall Street	\$ 39,000
19 Howard Avenue	25,000
31 Caroline Street	18,000
219 Juniata Street	32,500
318 Beaver Street	17,500
337 East Chestnut Street	35,000
338 North Plum Street	39,000
346 South Prince Street	50,000
401 South Queen Street	7,500
413 South Fremont Street	8,000
434 East Strawberry Street	22,000
439 South Queen Street	25,000
451-453 East Mifflin Street	9,000
459 Manor Street	18,788
522 Locust Street	25,000
526 East King Street	95,000
528 East Fulton Street	33,500
528 East King Street	8,000
535 Rockland Street	16,000
548 Beaver Street	26,000
588 North Plum Street	64,000
613 1/2 East Chestnut Street	49,000
801 Highland Avenue	25,000
804 North Plum Street	37,000
	<hr/>
	\$ 724,788
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CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

6. CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended December 31, 2014 is as follows:

	<u>December 31,</u> <u>2013</u>	<u>Increase/ Transfers In</u>	<u>Decrease/ Transfers Out</u>	<u>Transfers Between Activities</u>	<u>December 31,</u> <u>2014</u>
Governmental activities					
Capital assets not being depreciated:					
Land, easements, right of ways	\$ 7,997,210	\$ -	\$ (69,700)	\$ -	\$ 7,927,510
Construction in progress	<u>968,730</u>	<u>481,980</u>	<u>(968,730)</u>	<u>-</u>	<u>481,980</u>
Total capital assets not being depreciated	<u>8,965,940</u>	<u>481,980</u>	<u>(1,038,430)</u>	<u>-</u>	<u>8,409,490</u>
Capital assets being depreciated:					
Land improvements	12,663,571	599,568	-	-	13,263,139
Buildings	44,030,191	3,972,011	(5,281,270)	-	42,720,932
Machinery and equipment	3,369,679	995,691	(16,614)	-	4,348,756
Vehicles	7,062,354	440,111	(207,959)	(444,850)	6,849,656
Infrastructure	<u>37,915,169</u>	<u>1,683,126</u>	<u>(173,249)</u>	<u>-</u>	<u>39,425,046</u>
Total capital assets being depreciated	<u>105,040,964</u>	<u>7,690,507</u>	<u>(5,679,092)</u>	<u>(444,850)</u>	<u>106,607,529</u>
Less accumulated depreciation for:					
Land improvements	(3,239,423)	(601,678)	-	-	(3,841,101)
Buildings	(8,284,422)	(795,428)	1,725,216	-	(7,354,634)
Machinery and equipment	(2,127,511)	(258,939)	16,614	-	(2,369,836)
Vehicles	(4,275,913)	(412,136)	204,499	48,123	(4,435,427)
Infrastructure	<u>(26,248,491)</u>	<u>(958,574)</u>	<u>173,249</u>	<u>-</u>	<u>(27,033,816)</u>
Total accumulated depreciation	<u>(44,175,760)</u>	<u>(3,026,755)</u>	<u>2,119,578</u>	<u>48,123</u>	<u>(45,034,814)</u>
Total capital assets being depreciated, net	<u>60,865,204</u>	<u>4,663,752</u>	<u>(3,559,514)</u>	<u>(396,727)</u>	<u>61,572,715</u>
Governmental activities, capital assets, net	<u>\$69,831,144</u>	<u>\$ 5,145,732</u>	<u>\$(4,597,944)</u>	<u>\$ (396,727)</u>	<u>\$69,982,205</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 80,061
Public safety	708,150
Economic development and neighborhood revitalization	44,375
Public works	<u>2,194,169</u>

Total depreciation expense - governmental activities \$ 3,026,755

	December 31, 2013	Increase/ Transfers In	Decrease/ Transfers Out	Transfers Between Activities	December 31, 2014
Business-type activities:					
Sewer Fund:					
Capital assets not being depreciated:					
Land	\$ 1,484,824	\$ -	\$ -	\$ -	\$ 1,484,824
Construction in progress	<u>441,190</u>	<u>1,840,742</u>	<u>(441,190)</u>	-	<u>1,840,742</u>
Total capital assets not being depreciated	<u>1,926,014</u>	<u>1,840,742</u>	<u>(441,190)</u>	-	<u>3,325,566</u>
Capital assets being depreciated:					
Sewer system	151,067,133	3,127,242	-	-	154,194,375
Equipment and vehicles	<u>2,345,280</u>	<u>612,757</u>	<u>(13,490)</u>	-	<u>2,944,547</u>
Total capital assets being depreciated	<u>153,412,413</u>	<u>3,739,999</u>	<u>(13,490)</u>	-	<u>157,138,922</u>
Less accumulated depreciation for:					
Sewer system	(65,164,451)	(2,811,036)	-	-	(67,975,487)
Equipment and vehicles	<u>(620,002)</u>	<u>(129,267)</u>	<u>13,490</u>	-	<u>(735,779)</u>
Total accumulated depreciation	<u>(65,784,453)</u>	<u>(2,940,303)</u>	<u>13,490</u>	-	<u>(68,711,266)</u>
Total capital assets being depreciated, net	<u>87,627,960</u>	<u>799,696</u>	<u>-</u>	<u>-</u>	<u>88,427,656</u>
Sewer Fund capital assets, net	<u>89,553,974</u>	<u>2,640,438</u>	<u>(441,190)</u>	<u>-</u>	<u>91,753,222</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	<u>December 31,</u> <u>2013</u>	<u>Increase/ Transfers In</u>	<u>Decrease/ Transfers Out</u>	<u>Transfers Between Activities</u>	<u>December 31,</u> <u>2014</u>
Water Fund:					
Capital assets not being depreciated:					
Land	2,564,600	-	-	-	2,564,600
Construction in progress	365,955	700,258	(99,330)	-	966,883
Total capital assets not being depreciated	<u>2,930,555</u>	<u>700,258</u>	<u>(99,330)</u>	<u>-</u>	<u>3,531,483</u>
Capital assets being depreciated:					
Water system	181,310,233	4,473,168	(29,153)	-	185,754,248
Equipment and vehicles	2,715,117	99,418	(14,895)	-	2,799,640
Total capital assets being depreciated	<u>184,025,350</u>	<u>4,572,586</u>	<u>(44,048)</u>	<u>-</u>	<u>188,553,888</u>
Less accumulated depreciation for:					
Water system	(46,444,497)	(2,719,423)	15,129	-	(49,148,791)
Equipment and vehicles	(1,670,675)	(158,819)	14,896	-	(1,814,598)
Total accumulated depreciation	<u>(48,115,172)</u>	<u>(2,878,242)</u>	<u>30,025</u>	<u>-</u>	<u>(50,963,389)</u>
Total capital assets being depreciated, net	<u>135,910,178</u>	<u>1,694,344</u>	<u>(14,023)</u>	<u>-</u>	<u>137,590,499</u>
Water Fund capital assets, net	<u>138,840,733</u>	<u>2,394,602</u>	<u>(113,353)</u>	<u>-</u>	<u>141,121,982</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	December 31, 2013	Increase/ Transfers In	Decrease/ Transfers Out	Transfers Between Activities	December 31, 2014
Other enterprise funds:					
Capital assets being depreciated:					
Buildings	281,016	-	-	-	281,016
Infrastructure	-	277,832	-	-	277,832
Equipment and vehicles	162,804	66,018	-	444,850	673,672
Total capital assets being depreciated	443,820	343,850	-	444,850	1,232,520
Less accumulated depreciation for:					
Buildings	(54,946)	(4,615)	-		(59,561)
Infrastructure	-	(1,715)	-		(1,715)
Equipment and vehicles	(24,522)	(48,754)	-	(48,123)	(121,399)
Total accumulated depreciation	(79,468)	(55,084)	-	(48,123)	(182,675)
Total other enterprise funds capital assets, net	364,352	288,766	-	396,727	1,049,845
Business-type activities capital assets, net	\$ 228,759,059	\$ 5,994,350	\$ (1,225,087)	\$ 396,727	\$ 233,925,049

Component Units

Commission

Major classifications of capital assets and their respective depreciable lives consist of the following as of December 31, 2014:

	December 31, 2013	Additions	Deletions	December 31, 2014	Depreciable Lives
Capital assets being depreciated:					
Furniture and equipment	\$ 214,137	\$ 12,160	\$ (71,028)	\$ 155,269	3 - 10 years
Project improvements	139,868	26,936	(21,953)	144,851	5 - 15 years
Vehicles	89,918	-	-	89,918	5 - 10 years
Total capital assets being depreciated	443,923	39,096	(92,981)	390,038	
Accumulated depreciation	(299,664)	(41,365)	92,981	(248,048)	
Capital assets being depreciated, net	\$ 144,259	\$ (2,269)	\$ -	\$ 141,990	

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Parking Authority

Capital asset activity for the year ended December 31, 2014 is as follows:

	December 31, 2013	Increases	Decreases	December 31, 2014
Capital assets not being depreciated:				
Land	\$ 3,695,871	\$ -	\$ -	\$ 3,695,871
Capital assets being depreciated:				
Parking garages, lots, and rental complex	32,795,704	367,436	-	33,163,140
Office furnishings and equipment	93,424	-	-	93,424
Equipment	3,367,801	247,140	-	3,614,941
Vehicles	88,843	8,250	(14,424)	82,669
Total capital assets being depreciated	36,345,772	622,826	(14,424)	36,954,174
Less accumulated depreciation for:				
Parking garages, lots, and rental complex	(18,772,713)	(723,309)	-	(19,496,022)
Office furnishings and equipment	(76,177)	(4,117)	-	(80,294)
Equipment	(1,771,415)	(266,249)	-	(2,037,664)
Vehicles	(59,460)	(13,727)	10,338	(62,849)
Total accumulated depreciation	(20,679,765)	(1,007,402)	10,338	(21,676,829)
Total capital assets being depreciated, net	15,666,007	(384,576)	4,086	15,277,345
Total capital assets	\$ 19,361,878	\$ (384,576)	\$ 4,086	\$ 18,973,216

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Redevelopment Authority

A summary of changes in capital assets for the year ended December 31, 2014 is as follows:

	December 31, 2013	Increases	Decreases	December 31, 2014
Capital assets not being depreciated:				
Land and improvements	\$ 897,583	\$ -	\$ -	\$ 897,583
Construction in progress	7,990,114	834,016	(8,624,651)	199,479
Capital assets not being depreciated:	<u>8,887,697</u>	<u>834,016</u>	<u>(8,624,651)</u>	<u>1,097,062</u>
Capital assets being depreciated:				
Buildings	-	8,624,651	-	8,624,651
Accumulated depreciation				
Buildings	-	(179,680)	-	(179,680)
Net capital assets being depreciated:	<u>-</u>	<u>8,444,971</u>	<u>-</u>	<u>8,444,971</u>
Net capital assets	<u>\$ 8,887,697</u>	<u>\$ 9,278,987</u>	<u>\$ (8,624,651)</u>	<u>\$ 9,542,033</u>

LDIDA

A summary of changes in capital assets for the year ended April 30, 2014 is as follows:

	May 1, 2013	Increases	Decreases	April 30, 2014
Capital assets being depreciated:				
Equipment	\$ 22,958	\$ -	\$ -	\$ 22,958
Total capital assets being depreciated	22,958	-	-	22,958
Less accumulated depreciation	(13,508)	(2,100)	-	(15,608)
Capital assets, net	<u>\$ 9,450</u>	<u>\$ (2,100)</u>	<u>\$ -</u>	<u>\$ 7,350</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

7. LINE OF CREDIT

Component Units

Commission

The Commission had a renewable \$250,000 line of credit agreement with PNC Bank, National Association during the year ended December 31, 2014. The line expires on October 6, 2015 and bears interest at a variable rate, which was 4.25% at December 31, 2014. There were no draws on this loan during the year ended December 31, 2014 and no outstanding balance at year-end.

Redevelopment Authority

The Redevelopment Authority entered into a revolving line of credit agreement with a bank which is secured by the Redevelopment Authority's interest in the City's delinquent tax receivables. Interest accrues at a variable rate measured by interest rates on corporate loans at large U.S. Money Center Commercial Banks as published in the Money Rates column of the Wall Street Journal, Eastern Editions. The rate shall not exceed 8.0% per annum for the year ended December 31, 2014. The rate shall not fall below 4.75% per annum for the year ended December 31, 2014. The interest rate was 4.75% as of December 31, 2014. Interest payments are due monthly. Principal payments are due quarterly based on availability of funds from the collection of delinquent tax receivables. The line will expire on March 1, 2018. During the year ended December 31, 2014, the Redevelopment Authority borrowed \$846,663 on this note to facilitate the purchase of delinquent real estate tax claims from the City (Note 3). The outstanding balance on the line of credit was \$503,952 as of December 31, 2014.

The Redevelopment Authority entered into a line of credit agreement for construction of the parking garage. The maximum amount that can be drawn on this line is \$3,000,000 and interest is due on the first of each month at 65% of the prime rate. The interest rate at December 31, 2014 was 2.1%. The line was paid off on December 16, 2014 and was secured by a collateral assignment of the grant proceeds and the construction for which it is used. Interest paid on this debt of \$17,473 was capitalized for the year ended December 31, 2014. There was no outstanding balance on this line of credit as of December 31, 2014.

The Redevelopment Authority has been awarded a Redevelopment Assistance Capital Program grant from the Commonwealth of Pennsylvania to reimburse eligible construction costs. The Redevelopment Authority is required to make principal payments on this line of credit upon receipt of the grant funding. The total grant award was \$3,000,000.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Short-term debt activity for the year ended December 31, 2014 was as follows:

	January 1, 2014	Increases	Decreases	December 31, 2014
Line of credit - delinquent real estate taxes	\$ 549,060	\$ 846,663	\$ 891,771	\$ 503,952
Line of credit - parking garage construction	2,939,619	35,000	2,974,619	-
	<u>\$ 3,488,679</u>	<u>\$ 881,663</u>	<u>\$ 3,866,390</u>	<u>\$ 503,952</u>

8. DUE TO THE PRIMARY GOVERNMENT

Component Unit

Redevelopment Authority

The following amounts are due to the primary government at December 31, 2014:

Grant Payment to LOOP	\$ 25,000
Accumulated gain on tax claim collection (Note 3)	263,591
	<u>\$ 288,591</u>

9. UNEARNED REVENUES

Component Unit

Redevelopment Authority

A summary of unearned revenues at December 31, 2014 follows:

Unearned rent	\$ 16,667
Unearned grant revenue	2,594,237
Unearned interest income - capital lease (Note 3)	6,909,448
	<u>9,520,352</u>
Current portion	1,073,741
Long-term portion	<u>\$ 8,446,611</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Unearned grant revenues consists of grant funds received from a governmental agency. In accordance with the grant agreement, portions of these funds have been loaned to a third party and will be repaid to the Redevelopment Authority over an agreed-upon period. Upon the return of these funds to the Redevelopment Authority, the principal and interest earned on the returned funds must be continuously used for making loans to third parties with the objective of the elimination of blighted areas in the City. With special approval by the grantor, \$93,367 of these funds were spent in 2014 for garage construction purposes and, therefore, removed from unearned grant revenue and recognized as revenue.

10. LONG-TERM OBLIGATIONS

Primary Government

A summary of bonds and notes payable outstanding as of December 31, 2014 is as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding December 31, 2014
2006/2034	\$ 13,455,000	General Obligation Bonds, 5.00%-5.59%	\$ 11,345,000
2007/2046	125,315,000	General Obligation Bonds, 4.00%-5.00%	119,305,000
2002/2022	692,533	Note Payable to Financing Agency, 2.77%	307,702
2009/2030	43,990,000	General Obligation Notes, 2.50%-4.875%	30,995,000
2010/2028	8,635,000	General Obligation Bonds, 2.00%-4.00%	6,900,000
2011/2041	38,860,000	General Obligation Bonds, 1.75%-5.00%	37,150,000
2013/2035	7,000,000	Note Payable to Financing Agency, 1.495%-2.965%	1,151,037
2014/2037	5,500,000	Note Payable to Financing Agency, 1.00%-1.74%	333,129
2014/2044	42,490,000	General Obligation Bonds, 3.00%-5.00%	42,490,000
			<u>\$ 249,976,868</u>

Bonds Payable

In 1998, the City issued \$61,915,000 of general obligation bonds, bearing interest at rates ranging from 3.60% to 5.05%. The proceeds of the bond issuance were used to (i) finance the acquisition of the Water System through the refunding of the Metropolitan Lancaster Authority's outstanding: (a) Water Revenue Bonds, Series of 1990; (b) Water Revenue Bonds, Series of 1992; (c) Water Project Notes, Series of 1997; and (d) Water Revenue Notes, Series of 1998, (ii) to finance the acquisition of the Sewer System through the refunding of the Lancaster Municipal Authority's outstanding (a) Sewer Revenue Bonds, Series of 1987; (b) Sewer Revenue Bonds, Series of 1991; and (c) Sewer Project Notes, Series of 1996; and (iii) to finance the refunding of a portion of the City's outstanding

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

General Obligation Bonds, Series of 1996. These bonds were currently refunded through the issuance of General Obligation Notes, Series of 2009.

In 2003, the City issued \$9,995,000 of general obligation bonds, bearing interest at rates ranging from 2.00% to 4.45%. The proceeds of the bond issuance were used to fund the construction and equipping of a new police station and water fund transmission and distribution projects. These bonds were currently refunded through the issuance of General Obligation Bonds, Series of 2010.

In 2006, the City issued \$13,455,000 of general obligation bonds, bearing interest at rates ranging from 5.00% to 5.59%. The proceeds of the bond issuance were used to fund the unfunded actuarial accrued liability associated with fire and police pension. The debt service on these bonds is paid by the General Fund.

In 2007, the City issued \$125,315,000 of general obligation bonds, bearing interest rates from 4.00% to 5.00%. The proceeds of the bond issuance were used to fund general municipal projects, upgrades and improvements to the City's sewer system, the current refunding of the 2004 notes payable, and the water system membrane project. The debt service on these bonds is paid by the General Fund, Sewer Fund, and Water Fund.

In 2010, City Council issued \$8,635,000 of general obligation bonds. The proceeds of the bond issuance were used to currently refund the General Obligation Bonds, Series of 2003. The bonds bear interest at rates ranging from 2.00% to 4.00%. The debt service on these bonds is paid by the General Fund and Water Fund.

In 2011, the City issued \$38,860,000 of general obligation bonds, bearing interest rates from 1.75% to 5.00%. The proceeds of the bond issuance were used for improvements and upgrades to the water treatment and distribution facilities, upgrades and improvements to the wastewater treatment and collection facilities, and other capital projects. The debt service on these bonds is paid by the General Fund, Sewer Fund, and Water Fund.

In June 2014, City Council approved the issuance of general obligation bonds, Series of 2014, in the aggregate amount of \$42,490,000. The bond proceeds were used for the purposes of financing improvements and upgrades to water treatment facilities, improving and upgrading wastewater treatment and collection facilities, and other miscellaneous capital projects. These bonds bear interest rates ranging from 3.0% to 5.0%. The debt service on these bonds is paid by the General Fund, Sewer Fund, Water Fund, and Stormwater Fund, an other enterprise fund.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Notes Payable

In 2002, the City issued \$692,533 of notes, bearing interest at 2.77%. The proceeds of the note issuance were used by the Water Fund to construct a water main in Manor Township and to reinforce the water supply to the Borough of Millersville. The debt service on these notes is paid by the Water Fund.

In 2009, the City issued \$43,990,000 of general obligation notes, bearing interest at rates ranging from 2.50% to 4.875%. The proceeds of the note issuance were used to currently refund the City's outstanding General Obligation Bonds, Series A of 1998, and to pay the termination costs of the Swaption agreement with Wachovia Bank. The debt service on these notes is paid by the General Fund, Sewer Fund, and Water Fund.

In 2013, the City issued \$7,000,000 Guaranteed Revenue Note of 2012. This is a Pennvest drawdown loan that is for the construction of a series of green infrastructure source control practices, including porous pavement in parking lots, paths, alleys, and streets; infiltration and bio-retention systems; green roofs; rain gardens and rain barrels in order to capture storm water runoff, various other green infrastructure improvements throughout the City, and other ongoing capital improvement projects of the City. This Note bears interest at a rate of 1.495% for the first five years and 2.965% thereafter. As of December 31, 2014, \$1,151,037 was drawn down on this Note. The debt service on this note will be paid by the Stormwater Fund, another enterprise fund.

In January 2014, the City issued \$5,500,000 Guaranteed Revenue Note of 2014. This is a Pennvest loan for the construction of a preliminary treatment facility and diversion chamber. The note bears interest at a rate of 1.00% for the first five years and 1.74% thereafter. As of December 31, 2014, \$333,129 was drawn down on this note. The debt service on this note will be paid by the Sewer Fund.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Bonds and Notes Payable

A summary of principal and interest maturities on governmental activities bonds and notes payable is as follows:

<u>Year Ended December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2015	\$ 2,343,000	\$ 2,445,907	\$ 4,788,907
2016	2,417,200	2,368,371	4,785,571
2017	2,521,400	2,263,655	4,785,055
2018	2,635,200	2,150,664	4,785,864
2019	2,754,400	2,031,987	4,786,387
2020-2024	15,572,400	8,175,367	23,747,767
2025-2029	18,534,400	4,425,831	22,960,231
2030-2034	8,220,000	1,195,543	9,415,543
	<u>\$ 54,998,000</u>	<u>\$ 25,057,325</u>	<u>\$ 80,055,325</u>

A summary of principal and interest maturities on business-type activities bonds and notes payable is as follows:

<u>Year Ended December 31,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2015	\$ 3,861,508	\$ 8,404,090	\$ 12,265,598
2016	4,731,715	8,281,575	13,013,290
2017	4,997,653	8,073,397	13,071,050
2018	5,189,172	7,850,451	13,039,623
2019	5,427,441	7,613,883	13,041,324
2020-2024	31,032,650	34,199,202	65,231,852
2025-2029	28,771,127	27,951,488	56,722,615
2030-2034	31,368,306	21,721,087	53,089,393
2035-2039	32,534,296	14,885,249	47,419,545
2040-2044	35,295,000	7,235,703	42,530,703
2045-2046	11,770,000	800,325	12,570,325
	<u>\$ 194,978,868</u>	<u>\$ 147,016,450</u>	<u>\$ 341,995,318</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Capital Leases

Governmental Activities

In 2011 through 2014, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. The assets were purchased from the General Fund. As of December 31, 2014, the assets are included as governmental activities in the government-wide financial statements at a cost of \$953,945 and accumulated depreciation of \$316,315.

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2014 are as follows:

<u>Year Ended December 31,</u>	<u>Total</u>
2015	\$ 212,827
2016	70,159
2017	63,388
2018	<u>32,340</u>
Total minimum lease payments	378,714
Less amount representing interest	<u>(28,461)</u>
Present value of future minimum lease payments	<u><u>\$ 350,253</u></u>

Business-type Activities

In 2011 through 2014, the City purchased multiple vehicles and equipment under long-term lease agreements that are classified as capital leases. A majority of these assets were purchased from the Sewer Fund and the Water Fund. The City also purchased equipment, a portion of which is allocated to the Sewer Fund, Water Fund, and Trash Fund, an other enterprise fund. Also, capital leases were transferred from governmental activities to the Stormwater Fund, an other enterprise fund, in the amount of \$256,753 during the year ended December 31, 2014. As of December 31, 2014, the assets are included as business-type activities in the government-wide financial statements at a cost of \$2,590,761 and accumulated depreciation of \$380,138.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

The future minimum payments under the capital leases and the present value of the minimum lease payments at December 31, 2014 are as follows:

Year Ended December 31,	Total
2015	\$ 532,788
2016	411,015
2017	278,458
2018	63,159
Total minimum lease payments	1,285,420
Less amount representing interest	(93,099)
Present value of future minimum lease payments	<u>\$ 1,192,321</u>

Borrowing Payable – Basis Swap

In conjunction with the Basis Swap transaction described in Note 11, the City received an upfront cash payment. This upfront cash payment received by the City was considered to be a borrowing at a rate of 4.4%. As of December 31, 2014, the borrowing had an outstanding balance of \$1,249,816, which is reflected in the governmental activities portion of the City's statement of net position. Payments on the borrowing commenced on May 1, 2009, the date the Basis Swap became effective, and are scheduled to mature on May 1, 2028. Interest is currently being accreted to the principal amount annually. Accreted interest on the borrowing was \$768,775 at December 31, 2014.

A summary of principal and interest maturities on the borrowing at December 31, 2014 is as follows:

Year Ending December 31,	Principal	Interest	Total
2015	\$ 138,245	\$ 48,582	\$ 186,827
2016	122,402	43,286	165,688
2017	116,794	38,234	155,028
2018	110,586	33,453	144,039
2019	114,444	28,509	142,953
2020-2024	466,436	73,065	539,501
2025-2028	180,909	5,377	186,286
Total	<u>\$ 1,249,816</u>	<u>\$ 270,506</u>	<u>\$ 1,520,322</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Changes in long-term obligations for the year ended December 31, 2014 are as follows:

	December 31, 2013	Increase	Decrease	Transfers	December 31, 2014	Amount Due Within One Year
Governmental activities:						
Bonds payable	\$ 38,816,400	\$ 7,370,000	\$ (1,258,400)	\$ -	\$ 44,928,000	\$ 1,478,000
Unamortized premium	427,392	273,528	(44,997)	-	655,923	-
Notes payable	10,910,000	-	(840,000)	-	10,070,000	865,000
Borrowing payable - basis swap	1,401,230	55,908	(207,322)	-	1,249,816	138,245
Compensated absences	1,227,412	2,632,670	(2,707,752)	-	1,152,330	265,094
Capital leases	663,600	148,767	(205,361)	(256,753)	350,253	196,103
Workers' compensation payable	1,217,023	2,176,683	(2,337,870)	-	1,055,836	349,482
Total governmental activities	\$ 54,663,057	\$ 12,657,556	\$ (7,601,702)	\$ (256,753)	\$ 59,462,158	\$ 3,291,924

	December 31, 2013	Increase	Decrease	Transfers	December 31, 2014	Amount Due Within One Year
Business-type activities:						
Bonds payable	\$ 138,963,600	\$ 35,120,000	\$ (1,821,600)	\$ -	\$ 172,262,000	\$ 1,917,000
Unamortized premium	1,602,634	857,581	(157,679)	-	2,302,536	-
Notes payable	23,686,250	891,385	(1,860,767)	-	22,716,868	1,944,508
Compensated absences	165,958	1,198,623	(1,178,023)	-	186,558	43,722
Capital leases	814,124	694,507	(573,063)	256,753	1,192,321	483,743
Workers' compensation payable	257,684	4,900	(260,753)	-	1,831	606
Total business-type activities	\$ 165,490,250	\$ 38,766,996	\$ (5,851,885)	\$ 256,753	\$ 198,662,114	\$ 4,389,579

Compensated absences and workers' compensation claims typically have been liquidated in the General Fund and the Enterprise Funds.

Component Units

Parking Authority

Long-term Debt

The Parking Revenue Bonds of 1992, Parking Revenue Bonds of 1993, and 2003 Note were secured by a trust indenture dated December 31, 1985, and supplemental trust indentures dated January 15, 1992, December 14, 1993, and January 1, 1996, respectively, all issued by the Parking Authority to the Trustee. The bonds were payable out of revenue derived principally from the operation of the parking facilities. The City has guaranteed (under the terms of a lease agreement dated December 31, 1985, as amended by supplemental issues

CITY OF LANCASTER, PENNSYLVANIA

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dated January 15, 1992, December 14, 1993, and January 1, 1996) debt service payments to the Trustee.

On September 15, 2007, the 1992 and 1993 Series Bonds were defeased and the 2003 Note was paid in full with issuance of 2007 Series A and B Parking Revenue Bonds. The 2007 bonds are secured by a trust indenture dated September 15, 2007. Debt service payments are guaranteed by the City with a guaranty agreement dated September 15, 2007. The bonds are payable out of revenue derived principally from the operation of the parking facilities. Interest rates on the 2007 Series A bond range from 3.65 to 5.00%. Interest rates on the 2007 Series B bond range from 5.60 to 5.95%.

	December 31, 2013	Increase	Decrease	December 31, 2014	Amount Due Within One Year
2007 Series A Parking Revenue Bonds	\$ 17,460,000	\$ -	\$ (675,000)	\$ 16,785,000	\$ 700,000
2007 Series B Parking Revenue Bonds	8,530,000	-	(15,000)	8,515,000	15,000
	<u>\$ 25,990,000</u>	<u>\$ -</u>	<u>\$ (690,000)</u>	<u>\$ 25,300,000</u>	<u>\$ 715,000</u>

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2015	\$ 715,000	\$ 1,329,532	\$ 2,044,532
2016	745,000	1,300,667	2,045,667
2017	785,000	1,263,306	2,048,306
2018	830,000	1,218,088	2,048,088
2019	875,000	1,168,703	2,043,703
2020-2024	5,220,000	4,996,232	10,216,232
2025-2029	6,825,000	3,371,750	10,196,750
2030-2034	8,685,000	1,500,250	10,185,250
2035	620,000	31,000	651,000
Total	<u>\$ 25,300,000</u>	<u>\$ 16,179,528</u>	<u>\$ 41,479,528</u>

Elevator Loan

During the year ended December 31, 2010, the Parking Authority obtained bank financing of \$1,500,000 to upgrade its elevators in the garages. Principal is paid in equal annual installments of \$150,000. During the year ended December 31, 2014, the Authority paid

CITY OF LANCASTER, PENNSYLVANIA

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\$300,000 in excess of the amount due. As a result, the life of the loan decreased by two years and the balance will be fully repaid by 2018. Interest is fixed at 4.31%.

	December 31, 2013	Increase	Decrease	December 31, 2014	Amount Due Within One Year
Elevator loan payable	\$ 1,050,000	\$ -	\$ (450,000)	\$ 600,000	\$ 150,000

Future maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2015	\$ 150,000	\$ 23,150	\$ 173,150
2016	150,000	16,738	166,738
2017	150,000	10,220	160,220
2018	150,000	3,755	153,755
Total	\$ 600,000	\$ 53,863	\$ 653,863

Interest Expense

Interest expense on all bonds totaled \$1,357,392 for the year ended December 31, 2014. Interest expense on the elevator loan totaled \$37,125 for the year ended December 31, 2014.

Defeased Debt

On September 15, 2007, the Parking Authority funded the outstanding balance of \$17,980,000 of the Parking Revenue Bonds of the 1992 issue and the 1993 issue, by irrevocably placing in trust, direct obligations of the United States of America sufficient to satisfy the semi-annual interest payments and bond redemption requirements. The bonds are considered to be extinguished for financial reporting purposes and are excluded from the statement of net position. The Trustee retired \$1,745,000 of this debt in 2014.

A summary of outstanding funded bonds at December 31, 2014 is as follows:

Series of 1992 and 1993:		
Bonded debt outstanding	\$	3,490,000
Funds on deposit with Trustee at fair value	\$	3,265,159

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YEAR ENDED DECEMBER 31, 2014

Redevelopment Authority

Due to Lessee

The lessee of the Penn Square Hotel advanced \$1,000,000 to the Redevelopment Authority to facilitate debt service payments. Upon full payment of the related debt, these funds and any interest earned will be returned to the lessee. At December 31, 2014, the amount due is \$1,000,293.

At December 31, 2014, the lessee is also due a reimbursement of \$404,132 related to a construction project at the Penn Square Hotel. These funds are expected to be paid during 2015.

Notes Payable

During the year ended December 31, 2013, the Authority entered into a non-revolving, multi-advance time loan. The maximum amount the Authority can borrow on this loan is \$5,075,000 to be used for the parking garage construction through December 15, 2014, at which point semi-annual payments are required to be made. The loan bears interest at 3.30% until December 22, 2022, then moves to 65% of 30-day LIBOR, plus 200 basis points, with a floor of 5.75%. The note is secured with the intergovernmental tax increment financing (TIF) revenues (Note 18). The lender can put a lien on the property being constructed, if desired. The loan matures December 15, 2028. Interest on this debt of \$24,628 was capitalized for the year ended December 31, 2014. The outstanding balance as of December 31, 2014 was \$4,294,392, of which \$108,000 is due within one year.

Bonds Payable

The Redevelopment Authority issued Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture in the amount of \$8,000,000 in a private placement at a premium of \$1,540,000. The bonds bear interest of 6.99% per annum. Bond proceeds were used to fund the construction of the Penn Square Hotel (Note 17). Proceeds from the Infrastructure and Facilities Improvement Grant (Notes 3 and 16) are required to be used to pay debt service on the bonds. The bonds are guaranteed by the City. Principal and interest payments on the bonds shall be payable only from certain receipts, revenues, and money of the Redevelopment Authority and, if appropriate, by the City pursuant to the guaranty agreement. The bonds mature in December 2025. The outstanding balance at December 31, 2014 is \$4,877,696, of which \$307,150 is due within one year.

The Redevelopment Authority issued additional bonds as the First Supplemental Indenture to the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture in the amount of \$4,000,000 in a private placement at a premium of \$983,716. The bonds bear

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interest of 6.39% per annum. Bond proceeds were used to fund construction of the Penn Square Hotel (Note 17). Proceeds from the Infrastructure and Facilities Improvement Grant (Notes 3 and 16) are required to be used to pay debt service on the bonds. The bonds are guaranteed by the City. Principal and interest payments on the bonds shall be payable only from certain receipts, revenues, and money of the Redevelopment Authority and, if appropriate, by the City pursuant to the guaranty agreement. The bonds mature in December 2025. The outstanding balance at December 31, 2014 is \$2,792,638, of which \$181,932 is due within one year.

The Redevelopment Authority does not amortize the bond premium of the Guaranteed Special Revenue Bonds, Series of 2005. The Redevelopment Authority is expecting reimbursement of the debt service through the Infrastructure and Facilities Improvement Program grant. The premium received does not represent a reduction of debt service but an offset of construction costs and is a part of lease rental.

On April 1, 2009, the Redevelopment Authority issued the Federally Taxable Hotel Lease Revenue Bonds, Series of 2005 in the amount of \$21,456,414 in a private placement. The bonds bear interest at 7.00% per annum. During the year ended June 30, 2011, the Federally Taxable Hotel Lease Revenue Bonds, Series A of 2005 was paid in full, which triggered a change in this bond issue's interest rate from the initial rate to an adjusted rate. The adjusted rate is a variable rate, which is related to the bondholder's funding interest rate with a third-party. This rate is 4.45% as of December 31, 2014. The bonds are secured with the Redevelopment Authority's interest in the lease rental payments from the Penn Square Hotel lessee and a limited guarantee from the City in the event of the imposition of certain taxes on the project. The bonds mature in December 2024. The outstanding balance as of December 31, 2014 was \$16,025,681, of which \$1,147,412 is due within one year.

Aggregate maturities required on bonds and notes payable at December 31, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,744,494	\$ 1,365,804	\$ 3,110,298
2016	1,923,073	1,277,546	3,200,619
2017	2,075,964	1,181,233	3,257,197
2018	2,215,765	1,077,561	3,293,326
2019	2,366,107	966,798	3,332,905
2020-2024	15,141,195	2,799,287	17,940,482
2025-2028	2,523,809	126,817	2,650,626
Total	<u>\$ 27,990,407</u>	<u>\$ 8,795,046</u>	<u>\$ 36,785,453</u>

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Long-term obligation activity for the year ended December 31, 2014 can be summarized as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
Due to lessee	\$ 1,000,273	\$ 20	\$ -	\$ 1,000,293
Notes payable	1,262,955	3,070,437	(39,000)	4,294,392
Bonds payable	25,223,691	-	(1,527,676)	23,696,015
	<u>\$ 27,486,919</u>	<u>\$ 3,070,457</u>	<u>\$ (1,566,676)</u>	<u>\$ 28,990,700</u>

As described in the Guaranty Agreement between the City, the Redevelopment Authority, and the trustee, the City guarantees the full amount of the outstanding two indentures totaling \$7,670,334 as of December 31, 2014, all interest payments, as well as any fees and expenses resulting from events of default of the Redevelopment Authority. Future scheduled interest payments on these bonds amount to \$3,329,863 as of December 31, 2014. The guaranty remains in effect until the bonds are repaid. The bonds mature in 2025. The Redevelopment Authority is required to use special revenues (Infrastructure and Facilities Improvement Grant funds Notes 7 and 16) and reserve fund balances before requesting debt service assistance of the City under this guaranty. Since inception of the bonds, the City has not made any debt service payments under the terms of the guaranty on behalf of the Redevelopment Authority. If any payment were made under the guaranty, the City could seek reimbursement from the Redevelopment Authority's subsequent receipt of special revenues.

As described in the Limited Guaranty Agreement between the City, the Redevelopment Authority, and the trustee, the City guarantees any shortfall in debt service payments by the Redevelopment Authority, because the Redevelopment Authority must apply lease revenue to the payment of real estate taxes on the property subject to the lease. If the property is determined to be taxable, then the lease rental payments will not be sufficient to meet the debt service obligations if the taxes have to be paid by the Redevelopment Authority. In that case, the City would be liable for payment of the shortfall in the debt service payments per the terms of the limited guaranty. The total bond principal outstanding at December 31, 2014 is \$16,025,681 and future interest payments, based on current interest rates, are \$4,329,773. The current tax-exempt assessment for the property is \$45,642,300 and the applicable combined millage rate is 43.4543. The bonds are scheduled to be paid in full in 2024. The amount of the guaranty cannot be further quantified because it is not known if the property will become taxable in the future before the debt is repaid and how future real estate tax rates and assessment will develop. Since the inception of the bonds, the City has not made any debt service payments under the terms of the guaranty on behalf of the Redevelopment Authority.

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11. DERIVATIVE AGREEMENTS

Objective of the interest rate swap agreement and terms. During the year ended December 31, 1998, the City issued its \$61,915,000, aggregate principal amount, General Obligation Bonds, Series A of 1998 (the “Series A Bonds”). During the year ended December 31, 2004, because of the market conditions, the City entered into a forward interest rate swap agreement (Basis Swap) with PNC Bank, N.A., as the counterparty in connection with the Series A Bonds through the final maturity date of the Series A Bonds (May 1, 2028).

Terms. Beginning on May 1, 2009 and ending on the final maturity date of May 1, 2028, the City was to pay a variable interest rate equal to the SIFMA index based on the notional amount remaining on the Series A Bonds and receive a variable interest rate equal to 67% of the 1-Month LIBOR rate. The Basis Swap agreement contains an embedded interest rate cap, providing that the floating rate to be paid by the City shall not exceed 25%. PNC Bank, N.A. paid a premium to the City in the amount of \$1,715,700 for the Basis Swap.

The Basis Swap became effective on May 1, 2009 and has been assigned to a proportionate share of the City’s General Obligation Notes, Series of 2009 which refunded the Series A Bonds. The final maturity date of May 1, 2028 remains unchanged.

Fair value. As of December 31, 2014, the Basis Swap had a fair value of (\$580,913). As the Basis Swap is considered to be an investment type derivative instrument per accounting standards, it is reported as a derivative asset and as a borrowing on the City’s government-wide statement of net position. The change in fair market value of \$196,752 during the year ended December 31, 2014 is recorded as a component of investment income on the City’s government-wide statement of activities. The fair value is calculated using the zero-coupon method.

Credit risk. The City solicited competitive bids in connection with the Basis Swap agreement. The City solicited bids only from counterparties with an excellent credit rating (see – The City’s Interest Rate Management Plan). PNC Bank, N.A. is rated A+ by Fitch Ratings, A by Standard & Poor’s, and A2 by Moody’s Investors Service as of December 31, 2014. To mitigate the potential for credit risk, if PNC Bank’s credit rating falls below A-/A3 (threshold ratings) the counterparty will be obligated to post a certain amount of collateral or the City will have the right to terminate the swap agreement; PNC Bank negotiated a credit support annex with the City at the time the transactions was entered into, which would require PNC Bank to collateralize its obligations with direct obligations guaranteed by the United States of America if its respective credit ratings fell below the predetermined threshold ratings.

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Termination risk. The City or the counterparty may terminate the Basis Swap agreement if the other party defaults under the terms of the Agreement. In addition, the City may terminate the Basis Swap Agreement without cause at any time with notice to the counterparty of not less than two days. The termination value would be determined by the Calculation Agent (counterparty) using commercially reasonable judgment, or if disputed, the Calculation Agent shall seek bids from Reference Market-makers consistent with Section 6 of the Agreement. If the Basis Swap Agreement is terminated and has a negative fair value, the City would be liable to the counterparty for the termination payment. If the Basis Swap Agreement is terminated and has a positive fair value, the counterparty would be liable to the City for the termination payment.

Basis risk. The City is subject to basis risk because the interest index on the variable rate receipt arm of the swap is based on one-month LIBOR and the variable interest rate payment arm is based on a different index. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the City's calculated payments and, as a result, cost savings or synthetic interest rates may not be realized. As of December 31, 2014, the interest rate the City is paying under the Basis Swap was 0.03%, whereas the interest the City is receiving at 67% of the one-month LIBOR rate was 0.11%.

Contingent feature. If the City's credit rating is below A- by Standard & Poor's or A3 by Moody's Investors Service, as well as fails to deliver eligible collateral, then the swap transaction may be terminated. In the event that the collateral is called, the City would have to post eligible collateral up to the fair value of the Basis Swap at that time. Eligible collateral includes cash, negotiable debt obligations issued by the U.S. Treasury Department, securities guaranteed by the Government National Mortgage, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation, and agency notes issued directly by any of the Federal Home Loan Banks, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation. As of December 31, 2014, the City's rating is not below the rating threshold and, therefore, the City had not posted any collateral due to a ratings trigger.

12. RETIREMENT PLANS

Primary Government

Defined Benefit Plans

The City administers three single-employer defined benefit pension plans – the Fire Pension Plan (FPP), the Police Pension Plan (PPP), and the Cash Balance Pension Plan (CBPP). The assets of these plans are not commingled.

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YEAR ENDED DECEMBER 31, 2014

FPP and PPP

The FPP and PPP issue publicly available financial reports that include financial statements and required supplementary information. These financial reports may be obtained from the City's Accounting Department at 120 North Duke Street, Lancaster, PA 17602.

The financial statements of the FPP and PPP are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the FPP and PPP are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

At December 31, 2014, none of the FPP's and PPP's investments were more than five percent of the total asset value for each plan.

Plan Participants

At December 31, 2014, employee membership data related to the FPP and PPP was as follows:

	<u>FPP</u>	<u>PPP</u>
Inactive plan members or beneficiaries currently receiving benefits	141	159
Inactive plan members entitled to but not yet receiving benefits	3	5
Active plan members	<u>60</u>	<u>143</u>
Total	<u>204</u>	<u>307</u>

Plan Descriptions and Administration

The FPP and PPP are single-employer public employee retirement systems established and administered by the City to provide pension benefits for employees of its Bureau of Fire and Bureau of Police, respectively. The FPP is governed by the City of Lancaster Fire Pension Board, which consists of the Mayor, Director of Administrative Services, Director of Public Safety, City Controller, Chief of Fire, and two members of the fire department. The PPP is governed by City of Lancaster Police Pension Board which consists of the Mayor, the City Treasurer, the City Controller, three active police officers to be duly elected by a majority of all active police officers for three-year overlapping terms, and one retired police officer on

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the pension list to be duly elected by a majority of the retired police officers on the pension list for a two-year term.

Benefits Provided

For both the FPP and PPP, a participant is eligible for normal retirement after completion of 25 years of services. The normal retirement pension is payable monthly during the participant's lifetime, with payments continuing after the participants' death to the surviving spouse, or to dependent children under the age of 18 equal to 100% of the initial amount payable to the participant.

The amount of monthly pension to both FPP and PPP participants is equal to 50% of the final month's salary plus longevity, plus a service increment of 2.5% of the benefit multiplied by years of service in excess of 20. This service increment is limited to \$500 for all participants in the FPP. For those in the PPP, the service increment is limited to \$500 for those who were hired before January 1, 2011, and \$100 if hired on or after January 1, 2011.

An active member in the FPP who has attained age 51 and completed 25 years of service may elect to participate in the deferred retirement option plan (DROP). As of December 31, 2014, there were 15 participants in the DROP. As of December 31, 2014, the balance held by the FPP pursuant to the DROP totaled \$1,992,629.

Contributions

FPP members are required to contribute 5% of their pay and longevity plus \$5.00 per month for the service increment. PPP plan members hired on or before January 1, 2011 are required to contribute 5% of lieutenant's pay (or actual pay, if higher) and longevity, plus \$5.00 per month for the service increment. PPP members hired on or after January 1, 2011 contribute 5% of base pay and longevity, plus \$1.00 per month for the service increment.

The City is required to make actuarially determined periodic contributions at rates that, for individual employees, increase over time so that sufficient assets will be available to pay benefits when due.

The City contributed \$1,623,658 and \$2,439,350 for the year ended December 31, 2014 to the FPP and PPP, respectively.

Administrative Expenses

FPP and PPP administration costs are financed through investment income.

CITY OF LANCASTER, PENNSYLVANIA

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Net Pension Liability

The components of the net pension liability for the FPP and PPP at December 31, 2014 were as follows:

	<u>FPP</u>	<u>PPP</u>
Total pension liability	\$ 52,077,188	\$ 80,674,018
Plan fiduciary net position	<u>(39,043,422)</u>	<u>(62,484,419)</u>
Net pension liability	<u>\$ 13,033,766</u>	<u>\$ 18,189,599</u>
Plan fiduciary net position as a percentage of the total pension liability	74.97%	77.45%

The net pension liability was measured as of December 31, 2014 and was determined by rolling forward liabilities from the January 1, 2013 actuarial valuation. No significant events or changes occurred between the valuation date and the fiscal year ends.

Actuarial Assumptions - The January 1, 2013 actuarial valuation used the entry age normal actuarial cost method and RP2000 mortality table. The actuarial assumptions for both the FPP and PPP include the following: a) 8.00% investment rate of return, b) a projected salary increase of 5.00%, c) 3.00% inflation rate, d) level dollar closed amortization method, and e) 9-year remaining amortization period for FPP and 13-year remaining amortization period for PPP. These assumptions were applied to all periods included in the measurement of total pension liability.

Investment Policy - The Plans' policies in regard to the allocation of invested assets are established and may be amended by the respective Boards. The Boards seek to optimize the total return of the Plans' portfolios through a policy of balanced investments, structured to achieve the maximum returns possible, as measured on the total portfolios, consistent with policies that emphasize the prudent management of risk.

Long-Term Expected Rate of Return - The long-term expected rates of return on both Plans' investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class for the FPP as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	65.0%	7.0%
Fixed income	30.0%	2.5%
Cash	5.0%	0.0%
	<u>100.0%</u>	

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the PPP as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	65.0%	7.0%
Fixed income	29.0%	2.5%
Cash	6.0%	0.0%
	<u>100.0%</u>	

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2014, the annual money-weighted rate of return on Plan investments, net of investment expense, was 8.44% and 8.30% for the FPP and PPP, respectively.

Discount Rate – The discount rate used to measure the total pension liability as of December 31, 2014 was 8.00% for both the FPP and PPP. The Plans' fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Net Pension Liability Changes in the Discount Rate – The following presents the net pension liability of each Plan calculated using the discount rate described above, as well as what the Plan’s net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
FPP	\$ 18,176,103	\$ 13,033,766	\$ 8,670,077
PPP	\$ 28,293,476	\$ 18,189,599	\$ 9,731,004

Additional Employer Disclosures Required by GASB Statements No. 27 and 50

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon an actuarial valuation performed as of January 1, 2013, as required by Act 205.

The Plan assumptions under Act 205 are as follows:

	FPP	PPP
Actuarial valuation date	1/1/2013	1/1/2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	9 years	13 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	5.00%	5.00%
Underlying inflation rate	3.00%	3.00%
RP2000 mortality table		

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The City's annual pension cost and net pension asset for the FPP and PPP for the year ended December 31, 2014 were as follows:

	FPP	PPP
Annual required contribution	\$ 1,623,658	\$ 2,439,350
Interest on net pension asset	(426,667)	(569,171)
Adjustment to annual required contribution	533,334	711,464
Annual pension cost	1,730,325	2,581,643
Contributions made	1,623,658	2,439,350
Change in net pension asset	106,667	142,293
Net pension asset, beginning of year	(5,333,337)	(7,114,635)
Net pension asset, end of year	\$ (5,226,670)	\$ (6,972,342)

Three-year trend information:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
Fire Pension Plan:			
2012	\$ 1,186,830	90.6%	\$ (5,442,181)
2013	1,732,297	93.7%	(5,333,337)
2014	1,730,325	93.8%	(5,226,670)
Police Pension Plan:			
2012	\$ 1,867,001	92.1%	\$ (7,259,832)
2013	2,572,479	94.4%	(7,114,635)
2014	2,581,643	94.5%	(6,972,342)

Funded Status and Schedule of Funding Progress:

The schedules of funding progress, presented as required supplementary information following the notes to financial statements, present multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Fire Pension Plan:						
1/1/2013	\$ 39,814,691	\$ 49,376,555	\$ 9,561,864	80.6%	\$ 3,669,545	260.6%
Police Pension Plan:						
1/1/2013	\$ 60,520,074	\$ 72,813,781	\$ 12,293,707	83.1%	\$ 10,605,553	115.9%

CBPP

The CBPP does not issue stand-alone financial reports.

A. Summary of Significant Accounting Policies

Basis of Accounting

The CBPP's financial statements are prepared using the accrual basis of accounting. The CBPP member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

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B. Plan Description and Contribution Information

Plan Participants

At December 31, 2014, employee membership data related to the CBPP was as follows:

Inactive plan members or beneficiaries currently receiving benefits	49
Inactive plan members entitled to but not yet receiving benefits	33
Active members	<u>307</u>
Total	<u><u>389</u></u>

Plan Description and Administration

The CBPP is a single-employer defined benefit pension plan that covers all full-time, nonuniformed employees of the City. CBPP provides retirement, disability, and death benefits to plan members and their beneficiaries. The CBPP provisions are established and may be amended by the Nonuniformed Pension Board (Board). The Nonuniformed Pension Board consists of the Mayor, City Controller, the superintendent of finance, two nonuniformed employees and a member of City Council.

Benefits Provided

A participant is eligible for normal retirement at age 65 and completion of ten years of service. The normal retirement pension is payable monthly during the participant's lifetime. Payments cease upon the participant's death.

The amount of monthly pension is equal to the greater of (a) or (b) where (a) equals 0.8% of average monthly compensation times credited service after December 1, 1986, plus accrued benefit on December 1, 1986, and (b) equals the actuarial equivalent of the participant benefit account balance. The participant benefit account balance is equal to the sum of (1) the accrued benefit on November 30, 1986, plus (2) for each plan year beginning on or after January 1, 1987, an annual benefit credit equal to 4% of earnings for a participant who accrues credited service plus (3) after January 1, 1987, interest credited to the account balance equal to 5.5% compounded annually.

Average monthly compensation is based upon the five consecutive plan years of highest compensation out of the last ten years preceding retirement.

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If a participant continues working after his/her normal retirement date, his/her pension would not start until retirement, subject to minimum distribution rules at age 70 ½ or later. The late retirement benefit is the pension accrued to the late retirement date.

A participant is eligible for early retirement after attainment of age 55 and completion of ten years of service. The early retirement benefit is the actuarial equivalent of the pension accrued to the date of early retirement. The reduction is 7.2% for each of the first five years prior to normal retirement, and 3.6% for each of the next five years.

If a participant who has completed ten years of service becomes totally and permanently disabled, he/she is eligible for disability retirement after six months of disability. The disability retirement benefit is the greater of the accrued pension or 30% of the participant's average monthly compensation as of his/her date of disability.

Disability payments will be made until the earlier of recovery, death or normal retirement age. At normal retirement age, the participant shall receive the normal retirement pension.

The death benefit for an active vested participant who has completed five years of service is a 50% survivor pension for his beneficiary. Payment of the survivor benefit would begin on the date on which the participant would first have been eligible for retirement. The amount of survivor benefit would be the 50% survivor benefit payable under a joint and 50% survivor pension option, based upon the pension accrued to the date of death and reduced for early commencement of benefits, if applicable. The death benefit cannot be less than the participant's benefit account balance or the lump sum value of the vested accrued benefit.

Contributions

The CBPP is funded by the City on an annual basis pursuant to the provisions of the Act 205 of 1984 of the Commonwealth of Pennsylvania. The CPBB members are not required to contribute to the CBPP. The City is required to make actuarial determined periodic contributions at rates that for individual employees increase over time so that sufficient assets will be available to pay benefits when due.

The annual required contribution is determined annually during the budgeting process. The results of actuarial valuations are used in budgeting for future years.

The City contributed \$697,517 to the CBPP for the year ended December 31, 2014.

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YEAR ENDED DECEMBER 31, 2014

Net Pension Liability

The components of the net pension liability for the CBPP at December 31, 2014 were as follows:

Total pension liability	\$ 14,733,676
Plan fiduciary net position	<u>(10,740,515)</u>
Net pension liability	<u>\$ 3,993,161</u>

Plan fiduciary net position as a percentage of the total pension liability	72.90%
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The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial valuation date	1/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	5.00%
Underlying inflation rate	3.00%

RP2000 mortality table

Investment Policy - The CBPP's policies in regard to the allocation of invested assets are established and may be amended by the Board. The Board seeks to optimize the total return of the CPBB's portfolio through a policy of balanced investments, structured to achieve the maximum returns possible, as measured on the total portfolio, consistent with a policy that emphasizes the prudent management of risk.

Long-Term Expected Rate of Return - The long-term expected rate of return on CBPP investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class.

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These ranges are combined to produce the long-term expected rate of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the CBPP as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	61.0%	7.0%
Fixed income	29.0%	2.5%
Cash	10.0%	0.0%
	<u>100.0%</u>	

Rate of Return – The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2014, the annual money-weighted rate of return on CBPP investments, net of investment expense, was 8.98%.

Concentrations – The CBPP had investments in Goldman Sachs Financial Square Federal Fund Money Market Fund that were approximately 10% of the CBPP's fiduciary net position at December 31, 2014.

Discount Rate – The discount rate used to measure the total pension liability as of December 31, 2014 was 7.50%. The CBPP's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability Changes in the Discount Rate – The following presents the net pension liability of the CBPP calculated using the discount rate described above, as well as what the CBPP's net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or higher than the current rates:

<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
<u>\$ 5,684,083</u>	<u>\$ 3,993,161</u>	<u>\$ 2,182,649</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Additional Employer Disclosures Required by GASB Statements No. 27 and 50

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon an actuarial valuation performed as of January 1, 2013, as required by Act 205.

The January 1, 2013 actuarial valuation used the entry age normal actuarial cost method. The actuarial assumptions included a) 7.50% investment rate of return, b) a projected salary increase of 5%, c) level dollar closed amortization method, and d) 15-year amortization period. The actuarial value of assets from the prior valuation report (reduced for benefits paid and increased for contributions) is projected forward at an artificial investment return of 6.50% (interest rate assumption minus 1%). In no event is the actuarial value of assets allowed to be greater than 120% or less than 80% of market value.

Three-year trend information:

CBPP:

<u>Calendar Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
2012	\$ 518,631	99.60%	\$ (82,637)
2013	660,960	99.70%	(80,575)
2014	699,532	99.71%	(78,560)

The City's annual pension cost and net pension asset for the CBPP for the current year were as follows:

Annual required contribution	\$ 697,516
Interest on net pension asset	(6,043)
Adjustment to annual required contribution	8,059
Annual pension cost	699,532
Contributions made	697,517
Change in net pension asset	2,015
Net pension asset, beginning of year	(80,575)
Net pension asset, end of year	<u>\$ (78,560)</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Funded Status and Schedule of Funding Progress:

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	\$ 10,106,397	\$ 12,781,267	\$ 2,674,870	79.1%	\$ 12,661,626	21.1%

Defined Contribution Plan

The City administers a single-employer defined contribution plan, the Supplemental Savings Plan (SSP), in which all eligible, full-time, nonuniformed employees of the City may elect to participate. As of December 31, 2014, there were 188 plan participants. The SSP participants may elect to contribute up to 10% of their after-tax pay. The City will match 25% of the participant's contribution, on the first 5% contributed by each participant. Participant contributions in excess of 5% of compensation will not be matched. The Plan provisions are established and may be amended by the Nonuniformed Pension Board. During the year ended December 31, 2014, plan participants and the City made contributions of \$433,362 and \$92,954, respectively.

The SSP uses the same basis of accounting and methods to value investments as the City's defined benefit plans.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Pension Financial Statements

Financial statements for the individual pension plans are presented below:

Statement of Net Position December 31, 2014

	FPP	PPP	CBPP	SPP
Assets:				
Cash	\$ -	\$ -	\$ -	\$ 41,642
Investments	38,924,964	62,297,511	10,709,791	7,577,754
Receivables:				
Investment income	118,458	186,908	30,724	-
Total Assets	39,043,422	62,484,419	10,740,515	7,619,396
Liabilities:				
Other	-	-	-	2,000
Net position restricted for pension benefits	\$ 39,043,422	\$ 62,484,419	\$ 10,740,515	\$ 7,617,396

Statement of Changes in Net Position Year Ended December 31, 2014

	FPP	PPP	CBPP	SPP
Additions:				
Contributions:				
Employees	\$ 293,263	\$ 723,981	\$ -	\$ 433,362
Employer	1,623,658	2,439,350	697,517	92,954
Total contributions	1,916,921	3,163,331	697,517	526,316
Investment income:				
Net appreciation in fair value of investments	2,404,877	3,784,153	623,809	284,375
Interest and dividends	1,075,691	1,687,351	273,890	216,983
Total investment income	3,480,568	5,471,504	897,699	501,358
Less: investment expenses	(168,184)	(263,605)	(43,048)	-
Net investment income	3,312,384	5,207,899	854,651	501,358
Total additions	5,229,305	8,371,230	1,552,168	1,027,674
Deductions:				
Benefits	3,163,900	3,828,043	595,063	281,652
Administrative expenses	5,690	4,540	24,140	49,389
Total deductions	3,169,590	3,832,583	619,203	331,041
Change in net position	2,059,715	4,538,647	932,965	696,633
Net position restricted for pension benefits:				
Beginning of year	36,983,707	57,945,772	9,807,550	6,920,763
End of year	\$ 39,043,422	\$ 62,484,419	\$ 10,740,515	\$ 7,617,396

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Component Units

Commission

The Commission established a non-contributory, money purchase retirement plan for all eligible employees. The Corporation contributes 6% of eligible employees' earnings during the Plan year. Retirement expense totaled \$43,850 for the year ended December 31, 2014.

Parking Authority

The Parking Authority's defined benefit pension plan, The Parking Authority of the City of Lancaster Employee Pension Plan, provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension plan is affiliated with the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer pension plan administered by an independent state agency created by the Pennsylvania General Assembly in 1974 to administer local government pension plans. The authority to participate in the PMRS plan and to select specific benefit options rests with the Board of Directors of the Parking Authority. The PMRS issues a publicly available comprehensive annual financial report (CAFR). A copy of the CAFR can be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165 or by calling 1-800-622-7968.

Funding Policy

Plan participants are required to contribute 3.50% of their total compensation. The Parking Authority is required to contribute at an actuarially determined rate; the current rate is 8.97% of annual covered payroll. The contribution requirement of the Parking Authority is established and may be amended by PMRS. The contribution requirement of the plan participants is established by the Board of Directors of the Parking Authority.

Annual Pension Cost

The Parking Authority had an annual pension cost of \$6,907 for the year ended December 31, 2014, which equaled the Parking Authority's required and actual contribution. The required contribution was determined as a part of the actuarial valuation using the entry age normal, closed level dollar actuarial cost method. The actuarial assumptions include: (a) 5.5% investment rate of return (net of administration expense), (b) projected salary increases using an age-related scale for merit/seniority (e.g., age 30 – 6.4%; age 40 – 5.0%; age 50 – 4.1%; age 60 – 3.7%; 2.0% added for each of the first three years of service), including inflation at 3.0%, and (c) disability rates equal to 40% of the rates set forth in the 1964 OASPI (Social Security) experience.

CITY OF LANCASTER, PENNSYLVANIA

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YEAR ENDED DECEMBER 31, 2014

The following is a summary of the last three years:

Calendar Year	Annual Pension Cost (APC)	Percentage of APC Contributed
2012	\$ 14,139	100%
2013	2,736	100%
2014	6,907	100%

The funded status of the Parking Authority's pension plan as of January 1, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	AAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/2013	\$ 1,527,779	\$ 1,355,760	\$ 172,019	112.7%	\$ 370,246	46.5%

13. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In addition to the retirement benefits described in Note 12, the City provides single-employer health care benefits for all retired employees, their spouses, and dependents. These benefit provisions and all other requirements are established under the various union contracts and City policy for non-organized employees. Those employees are required to pay a portion of the cost of the Plan, which generally ranges from approximately 2% to 10% of the annual premiums.

Police officers and firefighters are eligible to retire with benefits after completion of 20 years of service or upon disability. Mandatory retirement with benefits occurs when police officers and firefighters reach age 60 regardless of service. Nonuniformed employees are eligible to retire after completion of 10 years of service and attainment of age 55 or upon disability after completion of 10 years of service.

Any firefighter, hired on or before November 30, 2012, who is eligible to retire, will receive fully paid medical and prescription drug coverage for the member, spouse, and eligible dependent children unless the retiree becomes employed by another employer. Retired firefighters will also receive dental coverage for the member only. If the retiree dies, his or her surviving spouse will be provided coverage to age 65 or until such time as the spouse becomes eligible for Medicare due to disability or other reason. Any firefighter hired after

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November 30, 2012, excluding cadets currently in the Academy, the City will provide employee-only medical insurance to those employees who retire and are under the age of 65 and not Medicare eligible. The coverage shall be the same employee-only medical insurance provided to then active Firefighters. Eligible retirees shall be given the option of purchasing coverage for their spouses through the City. If the retiree dies, their spouse will be provided coverage to age 65 or until such time the spouse becomes eligible for Medicare due to disability or other reason. If the surviving spouse of the retiree remarries, the new spouse will not be eligible for coverage. If the regular Medicare eligibility age is increased by federal legislation, this entitlement to coverage shall continue beyond age 65 until the newly established age of Medicare eligibility. Eligibility for post-retirement medical insurance coverage paid for by the City ends at Medicare eligibility.

Any police officer hired on or before December 26, 2011 who is eligible to retire will receive fully paid medical and prescription drug coverage for the member, spouse, and eligible dependent children unless the retiree becomes employed by another employer. For any police officer hired after December 26, 2011 who is eligible to retire, the City will pay 50% of the premium for member, spouse, and eligible dependent children for medical and prescription drug coverage unless the retiree becomes employed by another employer. Upon employment with a subsequent employer, the retiree, spouse, and eligible dependent children must accept the medical coverage offered by the subsequent employer and terminate coverage under the City's group plan. Upon termination of employment with any subsequent employer, the retiree, spouse, and eligible dependent children must elect, in writing within sixty days of the termination of employment, to re-enroll under the City's plan or otherwise forfeit reinstatement. Eligibility for post-retirement medical insurance coverage paid for by the City ends at Medicare eligibility.

Any nonuniformed employee who elects coverage will make monthly contributions. Once any retiree or spouse becomes eligible for Medicare, he/she must apply for Medicare Part A and Part B. For those eligible for Medicare coverage, medical insurance provided by the City will supplement Medicare.

If an active police officer or firefighter would die, dependents will become eligible for the same benefits as the member would upon retirement. If a retired employee would die while enrolled in the City's medical plan, his/her spouse and eligible dependents may continue coverage under the plan. If a police officer or firefighter would die while covered by a subsequent employer's medical plan, his/her surviving spouse and eligible dependents will be allowed to re-enroll into the City's medical plan.

Upon retirement, police officers will be provided with \$7,500 of life insurance and firefighters will be provided with \$10,000 of life insurance. A nonuniformed employee will

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

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be eligible for \$7,000 of life insurance upon 10 years of service and attainment age of 55 or upon disability after completion of 10 years of service.

As of December 31, 2014, the number of retirees or spouses eligible for health benefits and life insurance was 325 and 292, respectively.

Union labor contracts for the police, firefighters, and nonuniformed union employees establish the post-retirement health care plan provisions. Such union contracts do not require City Council approval and may be amended through future negotiations. The post-retirement health care plan provisions for non-union employees are established through the City's human resources policies, which are approved by the Mayor.

Funding Policy and Annual OPEB Costs

The City's contribution is based on projected pay-as-you-go financing requirements through the General Fund. For the year ended December 31, 2014, the City's net cost of providing health benefits and life insurance for retired employees was approximately \$5,040,000. During the year ended December 31, 2014, portions of the contribution were made directly to the City's OPEB trust funds by the City's Water and Sewer Funds in the amounts of \$726,204 and \$132,677, respectively. Plan members receiving benefits contributed \$30,449 and \$32,270 to the City's Water and Sewer Funds, respectively, as required by the cost sharing provisions of the plans for the year ended December 31, 2014.

Union labor contracts and the City's human resource policies establish and amend the obligations of the plan members and the City to contribute to the plans.

For police officers hired on or before December 26, 2011 and firefighters eligible to retire, the City pays the entire cost of medical and prescription drug coverage for the retiree, spouse and eligible dependent children. For police officers hired after December 26, 2011 eligible to retire, the City pays 50% of medical and prescription drug coverage for the retiree, spouse, and eligible dependent children. Retired firefighters will also receive dental coverage of the member only. Any nonuniformed employee who elects coverage will make monthly contributions. For eligible nonuniform individuals under the age of 65, the monthly costs for the retiree, spouse, and eligible dependent children are \$65, \$110, and \$60, respectively. For eligible nonuniformed individuals over the age of 65, the monthly costs for the retiree and spouse are \$50 and the monthly costs for eligible dependent children is \$65.

The City pays the entire cost of the life insurance benefits.

The City's annual OPEB cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC

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represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimate are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Information as of the latest actuarial valuation follows:

Valuation date	1/1/2014
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.5%
Salary increases	5% per year
Medical inflation	6.5% in 2014, decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later
Amortization period	30 years, open period

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB costs and net OPEB obligations to the plan for the year ended December 31, 2014 were as follows:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	\$ 11,077,470	\$ 2,283,646	\$ 13,361,116
Interest on net OPEB obligation	1,786,086	277,393	2,063,479
Adjustment to annual required contribution	(2,436,678)	(378,435)	(2,815,113)
Annual OPEB cost	10,426,878	2,182,604	12,609,482
Contribution made	(3,637,189)	(1,402,707)	(5,039,896)
Change in Net OPEB obligation	6,789,689	779,897	7,569,586
Net OPEB obligation, beginning	39,690,801	6,164,274	45,855,075
Net OPEB obligation, ending	<u>\$ 46,480,490</u>	<u>\$ 6,944,171</u>	<u>\$ 53,424,661</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2012	\$ 10,855,062	41%	\$ 39,928,776
2013	10,750,048	45%	45,855,075
2014	12,609,482	40%	53,424,661

Funded Status and Schedule of Funding Progress

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2014	\$ 1,459,923	\$ 128,129,913	\$ 126,669,990	1.14%	\$ 26,808,050	472.51%

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Financial statements for the OPEB Trust Funds are presented below:

Statement of Net Position December 31, 2014

	Sewer OPEB Trust	Water OPEB Trust
Assets:		
Investments	\$ 164,849	\$ 2,209,046
Total Assets	<u>164,849</u>	<u>2,209,046</u>
Net position restricted for other post-employment benefits	<u>\$ 164,849</u>	<u>\$ 2,209,046</u>

Statement of Changes in Net Position Year Ended December 31, 2014

	Sewer OPEB Trust	Water OPEB Trust
Additions:		
Contributions:		
Employees	\$ 32,270	\$ 30,449
Employer	132,677	726,204
Total contributions	<u>164,947</u>	<u>756,653</u>
Investment income:		
Interest and dividends	10	183
Total investment income	<u>10</u>	<u>183</u>
Total additions	<u>164,957</u>	<u>756,836</u>
Deductions:		
Administrative expenses	108	7,713
Total deductions	<u>108</u>	<u>7,713</u>
Change in net position	164,849	749,123
Net position restricted for other post-employment benefits:		
Beginning of year	-	1,459,923
End of year	<u>\$ 164,849</u>	<u>\$ 2,209,046</u>

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14. RISK MANAGEMENT

The City maintains both insurance contracts and self-funded arrangements to deal with the risk of loss arising from the following events: torts; theft of, damage to, or destruction of assets; business interruptions; errors and omissions; job-related illnesses or injuries to employees; acts of God; and losses resulting from providing fringe benefits to employees and their dependents.

Insurance contracts cover public officials, law enforcement, automobile, excess workers' compensation, excess health claims, and umbrella liabilities. The contracts also provide employee, tax collector/treasurer, mayor, controller, city engineer, and employee blanket bonds.

Self-Insurance-Workers' Compensation

The City has a self-funded third-party administered workers' compensation arrangement through Murray Risk Management and Insurance. During 2014, the City was limited to \$650,000 for nonuniformed employees and \$750,000 for uniformed employees per each accident and \$650,000 per each nonuniformed employee and \$750,000 per each uniformed employee for disease. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

A summary of workers' compensation claims for the years ended December 31, 2014 and 2013 is as follows:

Unpaid claims as of January 1, 2013	\$ 1,040,936
Incurred claims and change in estimates during 2013	568,109
Payments during 2013	<u>(134,338)</u>
Unpaid claims as of January 1, 2014	1,474,707
Incurred claims and change in estimates during 2014	2,181,583
Payments during 2014	<u>(2,598,623)</u>
Unpaid claims as of December 31, 2014	<u><u>\$ 1,057,667</u></u>

Self-Insurance-Health Insurance

The City is exposed to various risks of loss related to major medical self-insurance. The City has a stop/loss agreement with an insurance company which covers all individual claim

CITY OF LANCASTER, PENNSYLVANIA

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amounts exceeding \$150,000. This policy has an aggregate stop-loss limit of \$1,000,000. Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends as determined by the City's independent third-party administrator.

Changes in the balance of claims liability (net of excess insurance) during the year ended December 31, 2014 were as follows:

Unpaid claims as of January 1, 2013	\$ 366,843
Incurred claims and change in estimates during 2013	10,126,703
Payments during 2013	<u>(9,549,990)</u>
Unpaid claims as of December 31, 2013	943,556
Incurred claims and change in estimates during 2014	10,151,852
Payments during 2014	<u>(10,267,611)</u>
Unpaid claims as of December 31, 2014	<u>\$ 827,797</u>

15. PROPERTY SALES

Component Unit

Redevelopment Authority

During the year ended December 31, 2014, twelve properties, which were acquired by purchase or eminent domain, were resold to private or corporate entities for rehabilitation. The just compensation cannot always be obtained when properties are resold as the cost of the rehabilitation work required when added to the just compensation would prohibit the property from being marketable to low or moderate income families. As a result, the Redevelopment Authority may have losses from time to time on the sale or transfer of properties held for resale. Grant funding received from Community Development Block Grant allocations are used to absorb these losses.

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NOTES TO FINANCIAL STATEMENTS

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Cost of property sold represents the inventoried value at the time of the sale, after any possible prior-period losses from lower of cost or market inventory adjustments.

Properties sold during the year ended December 31, 2014:

<u>Property</u>	<u>Net Proceeds from Property Sales</u>	<u>Cost of Property Sold</u>	<u>Gain (Loss)</u>
16 Old Dorwart Street	\$ 13,500	\$ 12,000	\$ 1,500
118 North Reservoir Street	22,000	13,000	9,000
138 Stevens Avenue	23,000	31,500	(8,500)
140 Howard Avenue	6,500	7,000	(500)
235 Landis Drive	138,500	137,000	1,500
308 Coral Street	12,500	11,000	1,500
416 Howard Avenue	7,450	24,000	(16,550)
419 South Prince Street	86,500	85,000	1,500
428 East Strawberry Street	13,500	12,000	1,500
573 New Holland Avenue	19,000	8,000	11,000
631 South Lime Street	14,500	13,000	1,500
641 South Queen Street	23,750	22,000	1,750
Additional allocated costs	-	18,874	(18,874)
	<u>\$ 380,700</u>	<u>\$ 394,374</u>	<u>\$ (13,674)</u>

16. GRANTS

Component Unit

Redevelopment Authority

The Redevelopment Authority receives grants from various agencies. Grants are generally recognized in earnings or to offset private/public partnership project expenses in the period in which the related expenditures are incurred.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Redevelopment Authority. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

The Redevelopment Authority receives Community Development Block Grant funding which supports operations, especially as they relate to the purchase and sale of blighted properties.

On April 20, 2009, the Redevelopment Authority entered into an Infrastructure and Facilities Improvement Program Grant with the Commonwealth of Pennsylvania. The Redevelopment Authority will receive annual grant proceeds of up to \$1,000,000 based on stipulations included in the grant agreement for a period of ten years. Upon receipt, the Redevelopment Authority will forward those proceeds to a third-party developer to assist with debt service related to the Lancaster Stockyard project. The Redevelopment Authority received and subsequently disbursed \$653,454 under this grant agreement during the year ended December 31, 2014.

In addition, the Redevelopment Authority has been awarded an Infrastructure and Facilities Improvement Program Grant through the Commonwealth of Pennsylvania, which is payable in annual increments of up to \$1,000,000 over twenty years to be used for debt service of equal annual amount on the Guaranteed Special Revenue Bonds, Series of 2005 Special Revenue Indenture and First Supplemental Indenture (Note 10) on a reimbursement basis. The Redevelopment Authority has discounted the future grant receipts (Note 3) and offset construction expenses related to the Penn Square Hotel project in the amount of \$12,000,000. During the year ended December 31, 2014, \$1,000,000 was received under this grant agreement to offset debt service requirements.

Receipt of annual grant funding of the Infrastructure and Facilities Improvement Program grant is contingent upon the Redevelopment Authority demonstrating to the Commonwealth of Pennsylvania that anticipated tax revenues generated for the Commonwealth as a result of the Penn Square Hotel project equal or exceed the grant amount of the year. The Redevelopment Authority has offset the hotel construction costs by the maximum grant award of \$1,000,000 per year. Actual annual amounts received may be reduced by an amount that cannot be reasonably estimated at this time. The maximum annual grant award equals the debt service requirements of the Guaranteed Special Revenue Bonds, Series of 2005. The debt service is guaranteed by the City.

For the year ended December 31, 2014, the Redevelopment Authority was able to demonstrate that \$1,000,000 of tax revenue was generated and, therefore, received the maximum grant award of \$1,000,000.

The Redevelopment Authority has been granted a \$3,000,000 Redevelopment Assistance Capital Program (RACP) grant from the Commonwealth of Pennsylvania as a flow-through grant via the City to reimburse a portion of construction costs related to the Redevelopment Authority's parking garage project (Note 18). Under this grant agreement, the

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Redevelopment Authority recognized \$200,393 for construction costs incurred during the year ended December 31, 2014. The Redevelopment Authority has recorded a receivable of \$300,000 as of December 31, 2014 (Note 3). The Redevelopment Authority pays construction costs from a temporary line of credit (Note 7) prior to receiving grant reimbursement. Upon receipt of the accrued grant proceeds, the Redevelopment Authority is required to use those funds for debt service payments on the line of credit.

The Redevelopment Authority has been granted a \$500,000 RACP grant from the Commonwealth of Pennsylvania for the purpose of redeveloping the Montgomery House located within the Penn Square Hotel leased to Penn Square Partners under a capital direct financing lease (Note 17). To facilitate the project, the Redevelopment Authority has incurred construction costs in 2013 on behalf of the lessee in the amount of \$1,960,494 which the Redevelopment Authority offset on its books by payments received from the lessee. The Redevelopment Authority does not receive any additional net economic benefit as a result of the grant revenue and construction project and accounts for the grant revenue as a flow through grant as payments are received and forwarded to the project user. The Redevelopment Authority recognized grant revenue of \$402,762 for the year ended December 31, 2014 and recorded a transfer of grant proceeds to project users of equal amount. The Redevelopment Authority does not have any further construction commitments as of December 31, 2014 related to this project and expects to receive additional flow through grant proceeds in 2015 of up to the full grant amount.

17. PENN SQUARE HOTEL PROJECT

Component Unit

Redevelopment Authority

Acquisition, Construction, and Project Financing

On January 31, 2006, the Redevelopment Authority purchased from Penn Square Partners (PSP) the Watt & Shand Building and the rights to certain development materials completed by PSP relative to the project. The Redevelopment Authority then constructed the Penn Square Hotel. The Redevelopment Authority utilized several funding tranches to facilitate the construction of the hotel, including grant funding from the Commonwealth of Pennsylvania, bond issuances, and investments by the lessee. As further disclosed in Notes 3 and 16, the Redevelopment Authority expects additional \$12,000,000 of Infrastructure Facilities Improvement Grant funding to assist with future debt service requirements.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Hotel Lease and Operation

The Redevelopment Authority has entered into a lease agreement with PSP. In accordance with the agreement, PSP will lease the premises for an initial term, an interim term, and a base term. In addition, PSP has agreed to make an initial investment of approximately \$10,000,000 for certain fixtures, professional fees, working capital, and other pre-opening expenses for the hotel and restaurant.

The base term of the lease commenced on June 19, 2009. Rent during the base term includes amounts required as debt service on certain bonds issued by the Redevelopment Authority (base rent), other charges in connection with the bonds, plus any costs incurred by the Redevelopment Authority relative to the administration of the lease that are not provided for in the bond financing documents (additional rent). During the base term, PSP also pays the Redevelopment Authority minimum participation rent in the amount of \$200,000 per annum for the remainder of the lease. The minimum participation rent will be increased if certain hotel operating results, as defined in the lease agreement, are met.

PSP has the option to purchase the property from the Redevelopment Authority based on a formula set forth in the agreement. The purchase price will include the payment of any bonds outstanding and amounts owed to the Redevelopment Authority by PSP at the time of the purchase, in addition to the amount derived by the formula.

The Redevelopment Authority accounts for this lease agreement as a capital, direct financing lease. Construction expenses were offset by grant funding received to facilitate the project. The property is not carried as an asset on the Redevelopment Authority's books. Instead, a lease rental receivable is recognized (Note 3).

Pledged Revenues

All future base rent payments have been pledged for the payment of the debt service related to the Redevelopment Authority's Federally Taxable Hotel Lease Revenue Bonds, Series of 2005. For the year ended December 31, 2014, the Redevelopment Authority recognized interest income from the underlying capital lease in the amount of \$1,196,361 and received base rent cash flow in the amount of \$1,807,504. These funds were utilized to make principal payments in the amount of \$1,070,058 and interest payments in the amount of \$737,446.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

18. NORTH QUEEN STREET PARKING GARAGE AND INTERGOVERNMENTAL TAX INCREMENT FINANCING REVENUE

Component Unit

Redevelopment Authority

The Redevelopment Authority owns the property at 400 North Market Street where the North Queen Street parking garage was built to provide parking to future tenants of the Lancaster Press Building, current lot users, and the public. The Authority completed construction and began operations during 2014.

The Redevelopment Authority financed the project with the following three funding sources:

- \$3.8 million capital contribution from the City, of which \$2,900,006 has been received as of December 31, 2014.
- The Redevelopment Authority has been awarded a \$3.0 million Commonwealth of Pennsylvania RACP grant award which reimburses eligible construction costs. The Redevelopment Authority has secured a \$3.0 million construction line of credit for short-term financing of the construction costs (Note 7) while awaiting grant reimbursements.
- In 2012, the Redevelopment Authority has issued a \$5,075,000 million tax increment financing (TIF), non-revolving, multi-advance note payable (Note 10).

The City, the Redevelopment Authority, Lancaster County, and the School District of Lancaster created the Northwest Lancaster Tax Increment District (TIF district) on December 16, 2008 and agreed that 50% of the TIF revenues generated by the incremental increase in total assessed value of property and 50% of any millage rate increases within the TIF district will be paid to the Redevelopment Authority as further outlined in the TIF agreement. The TIF agreement was entered into on May 15, 2012 with an effective date of December 16, 2008. The following TIF revenues were received by the Redevelopment Authority during the year ended December 31, 2014:

City of Lancaster	\$ 109,754
Lancaster County	31,437
School District of Lancaster	181,637
Total	<u>\$ 322,828</u>

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

During the year ended December 31, 2013, the Redevelopment Authority Board approved the pursuit of purchasing three properties located adjacent to the parking garage with the intention of demolishing the structures to create a public urban park area. Two property owners have accepted the Redevelopment Authority's purchase offers totaling \$198,000. The purchase of the third property, as well as any construction contracts, are not yet finalized. The Redevelopment Authority's total project scope estimate is \$115,000. The Redevelopment Authority expects to receive funding for this project from the City and a private developer.

19. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

A reconciliation of the interfund receivables and payables at December 31, 2014 is as follows:

	Due From Other Funds	Due To Other Funds
Governmental funds:		
General Fund	\$ 8,843,252	\$ -
Miscellaneous State Grants Fund	-	466,973
Non-major governmental funds	2,055,632	-
Proprietary funds:		
Sewer Fund	-	3,599,905
Water Fund	-	9,209,243
Other Enterprise Funds	-	595,537
Internal Service Fund	2,972,774	-
	<u>\$ 13,871,658</u>	<u>\$ 13,871,658</u>

Primarily, interfund balances represent short-term borrowings between funds for the purpose of eliminating negative cash.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Interfund transfers for the year ended December 31, 2014 are as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
Governmental funds:		
General Fund	\$ 2,750,000	\$ 4,283,379
Capital Projects Fund	7,465,646	92,454
Debt Service Fund	4,435,266	7,465,646
Miscellaneous State Grants Fund	-	15,513
Non-major governmental funds	-	59,432
Proprietary funds:		
Sewer Fund	13,916,525	12,883,614
Water Fund	3,930,778	6,674,529
Other Enterprise Funds	1,063,169	2,086,817
	<u>\$ 33,561,384</u>	<u>\$ 33,561,384</u>

These amounts primarily represent transfers for debt service for principal and interest payments, transfers of grant related capital projects, and to fulfill budgetary transfer requirements.

20. COMMITMENTS AND CONTINGENCIES

Primary Government

Litigation

In the normal course of business, there are various claims and lawsuits pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss, if any, of all claims and lawsuits will not materially affect the City's financial position. With the exception of workers' compensation and health insurance, the City purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in 2014.

Grants

The City participates in various federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors. Any liability for reimbursement of

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

unallowed costs, which may arise as a result of these audits, if any, would not materially affect the City's financial position.

Contract Commitments

During the year ended December 31, 2014, the City, through the Capital Projects Fund, entered into contracts with construction contractors totaling \$9,063,476. At December 31, 2014, \$162,450 was included in accounts payable. The commitment remaining on the contracts at December 31, 2014 was \$169,011.

During the year ended December 31, 2014, the Sewer Fund entered into various contracts for pumping stations upgrades and maintenance. As a result of this, the City entered into contracts with construction contractors totaling \$22,624,348. At December 31, 2014, \$734,360 was included in accounts payable. The commitment remaining on the contracts at December 31, 2014 was \$16,623,865.

During the year ended December 31, 2014, the Water Fund contracted to make necessary capital improvements to the water system. As a result of this, the City entered into contracts with construction contractors totaling \$5,262,107. At December 31, 2014, \$534,361 was included in accounts payable. The commitment remaining on the contracts at December 31, 2014 was \$2,889,300.

Guarantee

The City is guarantor of the outstanding revenue bonds of the Parking Authority. As of December 31, 2014, the outstanding bonds amounted to \$25,300,000. In accordance with the Guaranty Agreement, the City is required to make principal and interest payments on the bonds if the Parking Authority fails to generate sufficient revenues to pay debt service. In accordance with the Reimbursement Agreement, if such payments are made by the City, the Parking Authority is required to reimburse the City from any monies available for that purpose under the Trust Indenture.

The City is guarantor of certain bonds of the Redevelopment Authority. The Redevelopment Authority issued \$12 million Bonds under the State's Infrastructure and Facilities Improvement Program Grant. The City has guaranteed the debt service payments due and owing under the Bonds. The Redevelopment Authority is expected to use its annual grant from the State to pay the debt service. In the event of a shortfall in the grant amount, the City is liable under the Guaranty agreement for payment of the shortfall in the annual debt service payment. Additionally, the Redevelopment Authority issued \$24 million in Bonds under a lease agreement with Penn Square Partners. The City has guaranteed, on a limited basis, the debt service payments due and owing under the bonds. The guarantee is limited to the

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

shortfall in any debt service payment owed by the Redevelopment Authority as the result of a shortfall in amounts available to the Redevelopment Authority under the lease because the Redevelopment Authority must apply amounts to the payment of real estate taxes on the property subject to the lease. If the property is determined to be taxable, then the lease rental payments will not be sufficient to meet the debt service obligations if the taxes have to be paid by the Redevelopment Authority. In that case, the City would be liable for payment of the shortfall in the debt service payments per the terms of the limited guaranty.

The City was not required to make payments under either of the above guarantees during the year ended December 31, 2014.

Component Units

LIDA

The term conduit debt obligations refers to debt instruments issued by LIDA in the form of bonds or notes for the express purpose of providing capital financing for a specific third party that is not a part of LIDA's financial reporting entity. Although conduit debt obligations bear the name of LIDA, LIDA has no obligation for such debt beyond the resources provided to the third party on whose behalf they are issued. LIDA does not record the assets or liabilities from completed bonds or notes since its primary function is to arrange the financing between the borrowing companies and the bond note holders, and funds arising therefrom are controlled by trustees or banks acting as fiscal agents.

As of December 31, 2014, there were bonds and notes issued and outstanding of \$165,202,121.

Parking Authority

In 2007, the Parking Authority entered into a lease agreement with Penn Square Partners. The lease provides Penn Square Partners with 300 guaranteed spaces, and the option to modify the Penn Square Garage. All modifications are to be paid by the Parking Authority upon approval and are then reimbursed by the lessee. In the event of lease termination or cancellation, the lessee is responsible for all expenses required to revert the Penn Square Garage to its original form that existed prior to the lease agreement.

Redevelopment Authority

The just compensation of properties acquired by the Redevelopment Authority under the power of eminent domain may be subject to change. Such changes could take place in the event of a court-mandated change in the estimated value of the property. The amount of

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

pending changes, if any, cannot be determined at this time. Based on current facts and circumstances, the Redevelopment Authority has determined that it is probable that additional just compensation will be required on the following properties and has accrued the following amounts as of December 31, 2014:

<u>Property</u>	<u>Accrued Loss</u>
8 North Marshall Street	\$ 39,000
337 East Chestnut Street	35,000
338 North Plum Street	39,000
401 South Queen Street	7,500
434 East Strawberry Street	10,000
439 South Queen Street	25,000
451-453 E. Mifflin Street	9,000
522 Locust Street	25,000
528 East Fulton Street	33,500
528 East King Street	8,000
535 Rockland Street	16,000
801 Highland Avenue	25,000
804 North Plum Street	37,000
	<u>\$ 309,000</u>

21. NEGATIVE UNRESTRICTED NET POSITION OF PROPRIETARY FUNDS

In addition to sewer rate increases for inside City customers in 2010 (10%) and 2011 (20%), City Council approved a 35% rate increase for inside City customers effective in January 2012. The PA Public Utility Commission (PUC) approved a rate increase for outside City sewer customers in April 2013 for an annualized revenue increase of \$399,000. In 2014, the City also created the Stormwater Fund as a new enterprise fund with its own dedicated revenue source (stormwater management fees). The creation of the Stormwater Fund removed stormwater related expenses from the Sewer Fund. The additional revenues to the Sewer Fund generated by the series of rate increases and the movement of stormwater related expenses to the Stormwater Fund had improved the Sewer Fund's cash flow. However, at year-end 2014, the City's bulk sewer treatment expense disputes with East Lampeter Township and with the Lancaster Area Sewer Authority were still unresolved and continued to be a drag on Sewer Fund revenues and cash flow.

In March 2015, following a binding arbitration decision favorable to the City in 2014, East Lampeter Township made a payment to the City of \$1.685 million. In mid-June 2015 another payment on the amount due from East Lampeter Township was made in the amount of \$171,000.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Also in March 2015, the City initiated the process to begin binding arbitration with the Lancaster Area Sewer Authority to resolve this bulk sewer treatment expense dispute. The City's demand, based on the East Lampeter Township arbitration award, included a demand of \$2.186 million in past due bulk sewer payments from 2008 through 2013.

In the Water Fund, a series of inside City rate increases, as well as a nearly 75% increase in rates for outside City customers approved by the PUC in July 2011, improved cash flow. However, the need for cash borrowing from the General Fund increased again in 2014 due to the continued delay of rate increase approvals through the PUC process. On June 6, 2014, the City filed a water rate increase request to the PUC for outside City customers that, if approved in whole, would have increase Water Fund revenues by \$6.46 million dollars on an annualized basis. Following the lengthy PUC review process for this rate increase proposal, the City settled with the State parties for a \$4.2 million revenue increase applied to outside City customers. This increase, paired with a City Council approved rate increase for inside City customers of \$1.3 million, went into effect on March 5, 2015 per the PUC approved settlement agreement.

22. EXTRAORDINARY ITEM - LITIGATION SETTLEMENT

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. During the year ended December 31, 2014, the City won a litigation settlement regarding outstanding bulk treatment receivables due from another municipality in the amount of \$2,433,543. The settlement revenue has been presented in the Sewer Fund on the statement of revenues, expenses, and changes in fund net position as an extraordinary item for the year ended December 31, 2014.

23. SUBSEQUENT EVENT

In April 2015, City Council approved the issuance of a General Obligation Note, Series of 2015, in the aggregate amount of \$6,950,000. Note proceeds are to be used to currently refund the General Obligation Bonds, Series of 2010. The note bears interest at a fixed rate of 2.41% until its maturity on May 1, 2028. The principal will be allocated 92% to the General Fund and 8% to the Water Fund.



REQUIRED
SUPPLEMENTARY
INFORMATION

CITY OF LANCASTER, PENNSYLVANIA
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLANS

SCHEDULE OF CHANGES IN THE FIRE PENSION PLAN'S
NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	\$ 646,693
Interest	3,820,058
Benefit payments, including refunds of member contributions	(3,163,900)
	1,302,851
Net Changes in Total Pension Liability	1,302,851
Total Pension Liability - Beginning	50,774,337
Total Pension Liability - Ending (a)	\$ 52,077,188
Plan Fiduciary Net Position:	
Contributions - employer	\$ 1,623,658
Contributions - employees	293,263
Net investment income	3,312,384
Benefit payments, including refunds of member contributions	(3,163,900)
Administrative expense	(5,690)
	2,059,715
Net Change in Plan Fiduciary Net Position	2,059,715
Plan Fiduciary Net Position - Beginning	36,983,707
Plan Fiduciary Net Position - Ending (b)	\$ 39,043,422
Net Pension Liability - Ending (a-b)	\$ 13,033,766
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.97%
Covered Employee Payroll	\$ 4,122,312
Net Pension Liability as a Percentage of Covered Employee Payroll	316.18%

CITY OF LANCASTER, PENNSYLVANIA
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLANS

SCHEDULE OF CHANGES IN THE POLICE PENSION PLAN'S
NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	\$ 1,755,477
Interest	6,117,633
Benefit payments, including refunds of member contributions	<u>(3,828,043)</u>
Net Changes in Total Pension Liability	4,045,067
Total Pension Liability - Beginning	<u>76,628,951</u>
Total Pension Liability - Ending (a)	<u><u>\$ 80,674,018</u></u>
Plan Fiduciary Net Position:	
Contributions - employer	2,439,350
Contributions - employees	723,981
Net investment income	5,207,899
Benefit payments, including refunds of member contributions	(3,828,043)
Administrative expense	<u>(4,540)</u>
Net Change in Plan Fiduciary Net Position	4,538,647
Plan Fiduciary Net Position - Beginning	<u>57,945,772</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 62,484,419</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 18,189,599</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>77.45%</u>
Covered Employee Payroll	<u><u>\$ 10,707,385</u></u>
Net Pension Liability as a Percentage of Covered Employee Payroll	169.88%

CITY OF LANCASTER, PENNSYLVANIA

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS

SCHEDULE OF CHANGES IN THE CASH BALANCE PENSION PLAN'S NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	\$ 533,032
Interest	1,048,689
Benefit payments, including refunds of member contributions	<u>(595,063)</u>
Net Changes in Total Pension Liability	986,658
Total Pension Liability - Beginning	<u>13,747,018</u>
Total Pension Liability - Ending (a)	<u><u>\$ 14,733,676</u></u>
Plan Fiduciary Net Position:	
Contributions - employer	\$ 697,517
Net investment income	854,651
Benefit payments, including refunds of member contributions	(595,063)
Administrative expense	<u>(24,140)</u>
Net Change in Plan Fiduciary Net Position	932,965
Plan Fiduciary Net Position - Beginning	<u>9,807,550</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 10,740,515</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 3,993,161</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u><u>72.90%</u></u>
Covered Employee Payroll	<u><u>\$ 13,618,505</u></u>
Net Pension Liability as a Percentage of Covered Employee Payroll	29.32%

CITY OF LANCASTER, PENNSYLVANIA
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION -
PENSION PLANS

SCHEDULES OF CITY CONTRIBUTIONS AND INVESTMENT
RETURNS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

FIRE PENSION PLAN:

Schedule of City Contributions

Actuarially determined contribution under Act 205	\$ 1,623,658
Contributions in relation to the actuarially determined contributions	<u>1,623,658</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 4,122,312</u>
Contributions as a percentage of covered employee payroll	39.39%

Investment Returns

Annual money-weighted rate of return, net of investment expense	8.44%
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POLICE PENSION PLAN:

Schedule of City Contributions

Actuarially determined contribution under Act 205	\$ 2,439,350
Contributions in relation to the actuarially determined contributions	<u>2,439,350</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 10,707,385</u>
Contributions as a percentage of covered employee payroll	22.78%

Investment Returns

Annual money-weighted rate of return, net of investment expense	8.30%
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CASH BALANCE PENSION PLAN:

Schedule of City Contributions

Actuarially determined contribution under Act 205	\$ 697,516
Contributions in relation to the actuarially determined contributions	<u>697,517</u>
Contribution deficiency (excess)	<u>\$ (1)</u>
Covered employee payroll	<u>\$ 13,618,505</u>
Contributions as a percentage of covered employee payroll	5.12%

Investment Returns

Annual money-weighted rate of return, net of investment expense	8.98%
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CITY OF LANCASTER, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - PENSION PLANS (UNAUDITED)

	Actuarial Valuation January 1	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Cash Balance Pension Plan:							
2008		\$ 8,747,557	\$ 9,591,825	\$ 844,268	91.2%	\$ 10,905,822	7.7%
2009		8,802,470	9,815,584	1,013,114	89.7%	10,853,541	9.3%
2010		9,311,791	10,448,552	1,136,761	89.1%	12,022,604	9.5%
2011		8,974,375	10,432,429	1,458,054	86.0%	11,972,809	12.2%
2012		9,583,121	11,273,769	1,690,648	85.0%	12,365,380	13.7%
2013		10,106,397	12,781,267	2,674,870	79.1%	12,661,626	21.1%
Fire Pension Plan:							
2008		\$ 35,648,730	\$ -	\$ -	-	\$ -	-
2009		35,258,887	41,692,040	6,433,153	84.6%	4,736,888	135.8%
2010		36,773,767	-	-	-	-	-
2011		37,934,781	46,785,075	8,850,294	81.1%	4,390,834	201.6%
2012		39,377,784	-	-	-	-	-
2013		39,814,691	49,376,555	9,561,864	80.6%	3,669,545	260.6%
Police Pension Plan:							
2008		\$ 48,600,558	\$ -	\$ -	-	\$ -	-
2009		49,259,232	57,157,584	7,898,352	86.2%	10,119,512	78.1%
2010		52,071,868	-	-	-	-	-
2011		55,593,841	66,275,125	10,681,284	83.9%	9,909,871	107.8%
2012		57,992,567	-	-	-	-	-
2013		60,520,074	72,813,781	12,293,707	83.1%	10,605,553	115.9%

See accompanying note to required supplementary information - pension plans (unaudited).

CITY OF LANCASTER, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION PLAN (UNAUDITED)

Cash Balance Pension Plan:

<u>Calendar Year</u>	<u>Annual Required Contribution</u>	<u>Contributions from Employer</u>	<u>Percentage Contributed</u>
2009	\$ 475,248	\$ 475,248	100.00%
2010	499,125	499,125	100.00%
2011	504,280	504,280	100.00%
2012	516,512	516,512	100.00%
2013	658,895	658,898	100.00%
2014	697,516	697,517	100.00%

See accompanying note to required supplementary information – pension plans
(unaudited).

CITY OF LANCASTER, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION PENSION PLANS (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

Significant Factors Affecting Schedules

The following changes affect the comparability of costs.

	<u>Actuarial Valuation Date</u>	<u>Reason(s)</u>	<u>Change in Unfunded Actuarial Accrued Liability</u>
Cash Balance Pension Plan:	1/1/2009	Assumption change	\$ (2,031,339)
	1/1/2011	Assumption change	252,898
	1/1/2013	Assumption change/ actuarial amendment	787,655
Fire Pension Plan:	1/1/2009	Assumption change/ plan amendment	\$ (2,364,437)
	1/1/2011	Assumption change	2,280,365
Police Pension Plan:	1/1/2009	Assumption change	\$ (3,789,172)
	1/1/2011	Assumption change	2,247,464

CITY OF LANCASTER, PENNSYLVANIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - OPEB (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2010	\$ -	\$ 105,985,918	\$ 105,985,918	0.00%	\$ 27,660,157	383.17%
1/1/2012	-	113,807,524	113,807,524	0.00%	25,591,950	444.70%
1/1/2014	1,459,923	128,129,913	126,669,990	1.14%	26,808,050	472.51%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB (UNAUDITED)

Year	Annual Required Contribution	Percentage Contributed
2009	\$ 12,911,247	33.86%
2010	11,143,003	29.59%
2011	11,143,003	33.07%
2012	11,404,542	39.01%
2013	11,404,542	42.30%
2014	13,361,116	37.72%

CITY OF LANCASTER, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING
SOURCES (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes:				
Real estate taxes, net of discount	\$ 24,775,000	\$ 24,775,000	\$ 24,851,012	\$ 76,012
Real estate transfer tax	510,000	510,000	539,545	29,545
Penalties, interest, and costs on delinquent real estate taxes	98,000	98,000	99,192	1,192
Earned income tax	4,900,000	4,900,000	5,192,274	292,274
Local services tax	1,650,000	1,650,000	1,700,385	50,385
Per capita taxes	-	-	15	15
Total taxes	31,933,000	31,933,000	32,382,423	449,423
Intergovernmental revenues:				
Grants	196,437	196,437	58,758	(137,679)
Pension state aid	2,742,261	2,742,261	2,420,483	(321,778)
Public utility reality tax	38,437	38,437	39,438	1,001
Alcohol beverage tax	35,000	35,000	30,300	(4,700)
Total intergovernmental revenues	3,012,135	3,012,135	2,548,979	(463,156)
Licenses and permits	2,265,000	2,265,000	1,960,531	(304,469)
Fines and forfeitures	2,480,000	2,480,000	2,067,968	(412,032)
Rents and charges for services	1,494,500	1,494,500	1,343,504	(150,996)
Investment income	350	350	14	(336)
Miscellaneous	2,176,305	2,176,305	2,245,880	69,575
Other financing sources:				
Interfund reimbursements	2,574,365	2,574,365	2,993,884	419,519
Sale of general capital assets	25,000	25,000	217,356	192,356
Transfers in	2,750,000	2,750,000	2,750,000	-
Total other financing sources	5,349,365	5,349,365	5,961,240	611,875
Total revenues and other financing sources	\$ 48,710,655	\$ 48,710,655	\$ 48,510,539	\$ (200,116)

See accompanying notes to required supplementary information - budgetary comparison schedule.

CITY OF LANCASTER, PENNSYLVANIA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING
USES (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Executive department:				
Office of the Mayor	\$ 207,411	\$ 208,236	\$ 206,439	\$ 1,797
Office of the City Solicitor	375,000	374,175	276,833	97,342
	<u>582,411</u>	<u>582,411</u>	<u>483,272</u>	<u>99,139</u>
Legislative department:				
Office of the City Council	57,000	57,915	58,530	(615)
Office of the City Clerk	61,203	83,038	80,211	2,827
	<u>118,203</u>	<u>140,953</u>	<u>138,741</u>	<u>2,212</u>
Office of the City Treasurer/Controller	<u>17,000</u>	<u>17,000</u>	<u>17,000</u>	<u>-</u>
Administrative services:				
Bureau of Accounting	695,455	750,648	763,125	(12,477)
Bureau of Procurement and Collections	142,154	142,871	135,191	7,680
Bureau of Human Resources	289,411	292,861	283,950	8,911
Bureau of Information Services	430,195	424,653	308,945	115,708
Community Involvement	513,156	518,302	598,301	(79,999)
Insurance	703,500	755,649	754,903	746
Fringe benefits	2,689,581	2,668,512	2,601,273	67,239
	<u>5,463,452</u>	<u>5,553,496</u>	<u>5,445,688</u>	<u>107,808</u>
Public safety:				
Bureau of Police	21,966,847	21,919,944	21,394,185	525,759
Bureau of Fire	10,274,560	10,227,915	10,221,914	6,001
	<u>32,241,407</u>	<u>32,147,859</u>	<u>31,616,099</u>	<u>531,760</u>
Economic development and neighborhood revitalization:				
Office of the Director	1,038,446	1,069,188	884,285	184,903
Bureau of Housing and Structural Inspection	997,287	959,845	932,934	26,911
Bureau of Neighborhood Revitalization	120,458	120,458	121,435	(977)
Bureau of Planning	253,385	260,085	247,512	12,573
	<u>2,409,576</u>	<u>2,409,576</u>	<u>2,186,166</u>	<u>223,410</u>
Public works:				
Office of the Director	978,841	944,971	943,184	1,787
Bureau of Engineering	349,592	388,041	408,350	(20,309)
Bureau of Streets:				
Administration	237,596	259,782	257,211	2,571
Maintenance	502,289	367,635	293,854	73,781
Traffic	965,901	1,040,427	1,015,674	24,753
Motor Vehicles	204,793	208,793	204,684	4,109
Bureau of Parks:				
Administration	167,282	178,657	175,224	3,433
Buildings	1,051,371	1,042,213	973,027	69,186
Parks	349,764	338,701	324,133	14,568
Trees	187,500	189,650	189,848	(198)
Central Market building	113,215	133,555	119,339	14,216
Southern Market building	163,692	160,165	149,038	11,127
	<u>5,271,836</u>	<u>5,252,590</u>	<u>5,053,566</u>	<u>199,024</u>
Other financing uses:				
Transfers out	4,296,745	4,296,745	4,283,379	13,366
Total expenditures and other financing uses	<u>\$ 50,400,630</u>	<u>\$ 50,400,630</u>	<u>\$ 49,223,911</u>	<u>\$ 1,176,719</u>

See accompanying notes to required supplementary information - budgetary comparison schedule.

CITY OF LANCASTER, PENNSYLVANIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE (UNAUDITED)

YEAR ENDED DECEMBER 31, 2014

1. BUDGETARY BASIS OF ACCOUNTING

An annual GAAP basis budget is adopted for the General Fund, with the exception of the proceeds from the issuance of capital leases and the related debt service payments, which are included in the function for which the lease was issued.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

	<u>Appropriation</u>	<u>Expenditures</u>
Legislative department:		
Office of City Council	\$ 57,915	\$ 58,530
Administrative services:		
Bureau of Accounting	750,648	763,125
Community Involvement	518,302	598,301
Economic development and neighborhood revitalization:		
Bureau of Neighborhood Revitalization	120,458	121,435
Public works:		
Bureau of Engineering	388,041	408,350
Bureau of Parks:		
Trees	189,650	189,848

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund.